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Proposed Taxation of Individual and Corporate Incomes, Inheritances and Gifts

HEARINGS

BEFORE THE

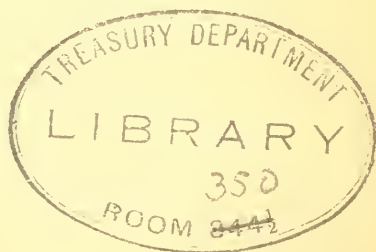
COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES

SEVENTY-FOURTH CONGRESS

FIRST SESSION

H. R. 8974

JULY 8, 9, 10, 11, 12, 13, 1935



UNITED STATES
GOVERNMENT PRINTING OFFICE
WASHINGTON : 1935

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PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

MONDAY, JULY 8, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will come to order.

The hearings before this committee, which are now open, will, I trust, be confined to the subject matter of the message submitted by the President of the United States to the Congress on June 19, 1935. The message of the President contains three general proposals concerning tax methods and policies; the first, in respect to an inheritance and gift tax in addition to our existing estate and gift taxes; the second, in respect to higher surtaxes on individuals; and the third, in respect to a graduated income tax on corporations.

While the message of the President furnishes an excellent guide as to policies and methods for this committee to follow, it does not attempt to specify in detail the precise plan which should be adopted.

For example, in the case of the first proposal made by the President, it will be the duty of this committee to decide where we should start the inheritance tax and what rates should be proposed. It is likewise the duty of this committee to determine at what point the surtaxes will be revised and also to determine what the maximum rate shall be. Finally, the committee must determine how much graduation shall be made in the corporate income tax.

For my own part, I believe that we should keep strictly within the terms of the President's message, because I believe that changes in our tax structure should be made gradually, so that business will not be affected to such an extent as would be the case if sudden changes are made in the entire tax system. If we can establish the proper principles at this time, there will be ample opportunity in the future to revise and perfect whatever measure may be enacted into law at this session.

The matter of Federal taxation is one that needs constant study and frequent adjustments to meet our fiscal needs, and also provide equality in taxation so far as it is in the power of Congress to provide and maintain an equitable and just system of taxation.

At this point, I will insert in the record the message of the President in reference to this subject, dated June 19, 1935.

(The message of the President referred to is as follows:)

[H. Doc. No. 229, 74th Cong., 1st sess.]

To the Congress of the United States:

As the fiscal year draws to its close it becomes our duty to consider the broad question of tax methods and policies. I wish to acknowledge the timely efforts of the Congress to lay the basis through its committees for administrative improvements, by careful study of the revenue systems of our own and of other countries. These studies have made it very clear that we need to simplify and clarify our revenue laws.

The Joint Legislative Committee, established by the Revenue Act of 1926, has been particularly helpful to the Treasury Department. The members of that committee have generously consulted with administrative officials, not only on broad questions of policy but on important and difficult tax cases.

On the basis of these studies and of other studies conducted by officials of the Treasury, I am able to make a number of suggestions of important changes in our policy of taxation. These are based on the broad principle that if a government is to be prudent its taxes must produce ample revenues without discouraging enterprise; and if it is to be just it must distribute the burden of taxes equitably. I do not believe that our present system of taxation completely meets this test. Our revenue laws have operated in many ways to the unfair advantage of the few, and they have done little to prevent an unjust concentration of wealth and economic power.

With the enactment of the Income Tax Law of 1913 the Federal Government began to apply effectively the widely accepted principle that taxes should be levied in proportion to ability to pay and in proportion to the benefits received. Income was wisely chosen as the measure of benefits and of ability to pay. This was and still is a wholesome guide for national policy. It should be retained as the governing principle of Federal taxation. The use of other forms of taxes is often justifiable, particularly for temporary periods; but taxation according to income is the most effective instrument yet devised to obtain just contribution from those best able to bear it and to avoid placing onerous burdens upon the mass of our people.

The movement toward progressive taxation of wealth and of income has accompanied the growing diversification and interrelation of effort which marks our industrial society. Wealth in the modern world does not come merely from individual effort; it results from a combination of individual effort and of the manifold uses to which the community puts that effort. The individual does not create the product of his industry with his own hands; he utilizes the many processes and forces of mass production to meet the demands of a national and international market.

Therefore, in spite of the great importance in our national life of the efforts and ingenuity of unusual individuals, the people in the mass have inevitably helped to make large fortunes possible. Without mass cooperation great accumulations of wealth would be impossible save by unhealthy speculation. As Andrew Carnegie put it, "Where wealth accrues honorably, the people are always silent partners." Whether it be wealth achieved through the cooperation of the entire community or riches gained by speculation—in either case the ownership of such wealth or riches represents a great public interest and a great ability to pay.

I

My first proposal, in line with this broad policy, has to do with inheritances and gifts. The transmission from generation to generation of vast fortunes by will, inheritance, or gift is not inconsistent with the ideals and sentiments of the American people.

The desire to provide security for one's self and one's family is natural and wholesome, but it is adequately served by a reasonable inheritance. Great accumulations of wealth cannot be justified on the basis of personal and family security. In the last analysis such accumulations amount to the perpetuation of great and undesirable concentration of control in a relatively few individuals over the employment and welfare of many, many others.

Such inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our Government.

Creative enterprise is not stimulated by vast inheritances. They bless neither those who bequeath nor those who receive. As long ago as 1907, in a message to Congress, President Theodore Roosevelt urged this wise social policy:

"A heavy progressive tax upon a very large fortune is in no way such a tax upon thrift or industry as a like tax would be on a small fortune. No advantage comes either to the country as a whole or to the individuals inheriting the money by permitting the transmission in their entirety of the enormous fortunes which would be affected by such a tax; and as an incident to its function of revenue raising, such a tax would help to preserve a measurable equality of opportunity for the people of the generations growing to manhood."

A tax upon inherited economic power is a tax upon static wealth, not upon that dynamic wealth which makes for the healthy diffusion of economic good.

Those who argue for the benefits secured to society by great fortunes invested in great businesses should note that such a tax does not affect the essential benefits that remain after the death of the creator of such a business. The mechanism of production that he created remains. The benefits of corporate organization remain. The advantage of pooling many investments in one enterprise remains. Governmental privileges such as patents remain. All that is gone is the initiative, energy, and genius of the creator—and death has taken these away.

I recommend, therefore, that, in addition to the present estate taxes, there should be levied an inheritance, succession, and legacy tax in respect to all very large amounts received by any one legatee or beneficiary; and to prevent, so far as possible, evasions of this tax, I recommend further the imposition of gift taxes suited to this end.

Because of the basis on which this proposed tax is to be levied and also because of the very sound public policy of encouraging a wider distribution of wealth, I strongly urge that the proceeds of this tax should be specifically segregated and applied, as they accrue, to the reduction of the national debt. By so doing we shall progressively lighten the tax burden of the average taxpayer, and, incidentally, assist in our approach to a balanced budget.

The disturbing effects upon our national life that come from great inheritances of wealth and power can in the future be reduced, not only through the method I have just described, but through a definite increase in the taxes now levied upon very great individual net incomes.

To illustrate: The application of the principle of a graduated tax now stops at \$1,000,000 of annual income. In other words, while the rate for a man with a \$6,000 income is double the rate for one with a \$4,000 income, a man having a \$5,000,000 annual income pays at the same rate as one whose income is \$1,000,000.

Social unrest and a deepening sense of unfairness are dangers to our national life which we must minimize by rigorous methods. People know that vast personal incomes come not only through the effort or ability or luck of those who receive them, but also because of the opportunities for advantage which government itself contributes. Therefore the duty rests upon the Government to restrict such incomes by very high taxes.

III

In the modern world, scientific invention and mass production have brought many things within the reach of the average man which in an earlier age were available to few. With large-scale enterprises has come the great corporation drawing its resources from widely diversified activities and from a numerous group of investors. The community has profited in those cases in which large-scale production has resulted in substantial economies and lower prices.

The advantages and the protections conferred upon corporations by government increase in value as the size of the corporation increases. Some of these advantages are granted by the State which conferred a charter upon the corporation; others are granted by other States which, as a matter of grace, allow the corporation to do local business within their borders. But perhaps the most important advantages, such as the carrying on of business between two or more States are derived through the Federal Government—great corporations are protected in a considerable measure from the taxing power and the regulatory power of the States by virtue of the interstate character of their business. As the profit to such a corporation increases, so the value of its advantages and protections increases.

Furthermore, the drain of a depression upon the reserves of business puts a disproportionate strain upon the modestly capitalized small enterprise. Without such small enterprises our competitive economic society would cease. Size begets

monopoly. Moreover, in the aggregate these little businesses furnish the indispensable local basis for those Nation-wide markets which alone can insure the success of our mass-production industries. Today our smaller corporations are fighting not only for their own local well-being but for that fairly distributed national prosperity which makes large-scale enterprise possible.

It seems only equitable, therefore, to adjust our tax system in accordance with economic capacity, advantage, and fact. The smaller corporations should not carry burdens beyond their powers; the vast concentrations of capital should be ready to carry burdens commensurate with their powers and their advantages.

We have established the principle of graduated taxation in respect to personal incomes, gifts, and estates. We should apply the same principle to corporations. Today the smallest corporation pays the same rate on its net profits as the corporation which is a thousand times its size.

I, therefore, recommend the substitution of a corporation income tax graduated according to the size of corporation income in place of the present uniform corporation income tax of 13 $\frac{3}{4}$ percent. The rate for smaller corporations might well be reduced to 10 $\frac{3}{4}$ percent, and the rates graduated upward to a rate of 16 $\frac{3}{4}$ percent on net income in the case of the largest corporations, with such classifications of business enterprises as the public interest may suggest to the Congress.

Provision should, of course, be made to prevent evasion of such graduated tax on corporate incomes through the device of numerous subsidiaries or affiliates each of which might technically qualify as a small concern even though all were in fact operated as a single organization. The most effective method of preventing such evasions would be a tax on dividends received by corporations. Bona fide investment trusts that submit to public regulation and perform the function of permitting small investors to obtain the benefit of diversification of risk may well be exempted from this tax.

In addition to these three specific recommendations of changes in our national tax policies, I commend to your study and consideration a number of others. Ultimately we should seek through taxation the simplification of our corporate structures through the elimination of unnecessary holding companies in all lines of business. We should likewise discourage unwieldy and unnecessary corporate surpluses. These complicated and difficult questions cannot adequately be debated in the time remaining in the present session of this Congress.

I renew, however, at this time the recommendations made by my predecessors for the submission and ratification of a constitutional amendment whereby the Federal Government will be permitted to tax the income on subsequently issued State and local securities and likewise for the taxation by State and local governments of future issues of Federal securities.

In my Budget message of January 7, I recommended that the Congress extend the miscellaneous internal revenue taxes which are about to expire and also to maintain the current rates of those taxes which, under the present law, would be reduced. I said then that I considered such taxes necessary to the financing of the Budget for 1936. I am gratified that the Congress is taking action on this recommendation.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, June 19, 1935.

THE CHAIRMAN. The first witness this morning is the Secretary of the Treasury, Mr. Morgenthau, who comes at the invitation of the chairman of the committee, and if there is nothing else that any member of the committee desires to say at this time the Secretary may proceed.

MR. COOPER. Mr. Chairman, I assume the usual course will be followed, that the Secretary will be permitted to complete his statement without interruption?

THE CHAIRMAN. That is the custom and the rule usually followed by the committee, and I am sure the members will observe the rule at this time.

MR. SECRETARY, we will be glad to hear you.

**STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF
THE TREASURY**

Secretary MORGENTHAU. Mr. Chairman, I am glad to respond to the request of your chairman, Mr. Robert L. Doughton, that I appear and discuss briefly, from the Treasury's point of view, the principles and policies for obtaining additional revenues which the President has outlined in his message to the Congress.

The chairman of your subcommittee on taxation, Mr. Samuel B. Hill, submitted to the Treasury a number of hypothetical rate schedules and requested the Department to prepare for your committee estimates of the probable amount of revenue that would be produced by each of these rate schedules. The Treasury is very glad to furnish this statistical material for the use of your committee and will be happy to supply any additional information which your committee may desire for use in the discharge of its responsibility for the formulation of revenue legislation.

In looking forward to balancing the Budget and reducing the national debt, the primary interest of the Treasury in the legislation which your committee is considering relates to the revenue which it may raise, although it is true that the full consequences of tax laws are not limited to the revenues they produce. It has to be recognized that taxation in any form has many collateral effects throughout our whole economic and social life, and that, since taxes cannot be levied without these collateral results and since they must be levied, there is a national duty to avoid tax laws which produce undesirable social consequences and a like duty to correct evils produced by existing tax legislation as they become apparent. I think it will be generally recognized that our tax legislation has too often neglected these considerations.

The sources of taxation proposed by the President in his message to the Congress of June 19, 1935, can be made to yield substantial additions to the receipts of the Federal Government. This is shown in our estimates of revenue based upon the schedules of rates submitted by your subcommittee to the Treasury for calculation of probable yield. These proposed taxes rest on the principle of ability to pay. They are devised to draw an accumulation of wealth and income which, for the most part, have been derived from Nation-wide activities. In consequence, their enactment should constitute an important step forward in reshaping our tax structure along sounder and fairer lines.

The Treasury's first concern is with the adequacy of the national revenue. There are many times of emergency when the Treasury must finance expenditures in excess of income by borrowings which increase the public debt. But the national welfare demands that, when such an emergency has passed, sufficient income be raised both to meet current expenditures and to make substantial reductions in the debt. The time has come to move in this direction. It would, of course, be unwise to impose tax burdens which would retard recovery. But it would be equally unwise not to call on sources of revenue which would reduce our borrowings and later reduce the national debt without interfering with recovery, and it is my belief that the additional taxes which the President has now recommended fall within this latter class.

Because of our common responsibility for safeguarding the national credit, we are all vitally concerned in the use which is to be made of the revenue that may be derived from the proposed taxes. As Secretary of the Treasury, it is my conviction that it would be perilous to regard any part of these new revenues as available for new types of expenditures or as justifying any increase over our carefully budgeted plans for Federal outlays. The course which I feel sure will appeal to all of you as the only sound procedure is that the revenue derived from these new taxes shall be regarded as very definitely earmarked for reducing future borrowing and paying off the public debt. We should set aside the proceeds of these new taxes and safeguard them as carefully as was the stabilization fund.

Some months ago in discussing monetary matters, I spoke of the increment on gold resulting from revaluation as having been placed in a special drawer of the Treasury's cash register, since it was being kept separate from other funds and was not to be used for ordinary expenditures. Silver seigniorage resulting from the Silver Purchase Act is being similarly handled.

In closing I should like to repeat that I think it would be in the highest public interest to regard the proceeds of these taxes as occupying a third special drawer in the Treasury, available only to reduce our borrowings and later reduce the national debt.

Mr. Chairman, I am returning the tax-rate schedules submitted to the Treasury for an estimate of their probable revenue yields. Your 18 schedules relating to inheritance and gift taxes would produce yields ranging from about 7 million to 728 millions.

Your six schedules relating to increased bracket rates on large individual incomes would produce revenue yields from about 5 millions to 32½ millions.

Your three schedules relating to a graduated corporation income tax would produce revenue yields from about 67 millions to 102 millions.

Your suggestion relating to method of partially removing the present total tax exemption of dividends received by corporations would produce revenue approximating \$39,000,000.

Now, Mr. Chairman, I want to return to you an analysis that the Treasury has made of these rates.

The CHAIRMAN. As I understand it, this information was called for purely for study and for statistical purposes, so that the committee might have it for its guidance when it is ready to go into executive session for the preparation of such legislation as the committee will deem it wise and expedient to recommend.

Secretary MORGENTHAU. That is right.

Mr. JENKINS. Mr. Secretary, I notice in the statement that you have made to the committee you have brought these two phrases together, "For reducing future borrowing" and "paying off the public debt."

As I remember it, the country is running behind at the rate of about \$4,000,000,000 a year. This tax program that you talk about would not possibly produce more than four or five hundred million dollars a year. Why do you say it will pay off the public debt? Why do you not confine your statement to saying that it will tend to reduce these future borrowings?

Secretary MORGENTHAU. As long as we are spending in excess of our revenue, this money will be set aside, following my thought in the

matter, and it will first enable us to borrow less; and, second, we will be able to use it for reducing the debt.

Mr. JENKINS. Then there is not any immediate prospect that any money that we get out of this bill will be used at all for the reduction of the debt. It will be used for reduction of expenses; in other words, we will come nearer to balancing the budget than we have.

I wondered why you make reference in several places in your statement to paying off the public debt, when there is no chance of paying off the public debt in this program.

Secretary MORGENTHAU. When we get to a point where we do strike a balance, and these revenues continue to come in, then the revenues would be used to reduce the public debt.

Mr. JENKINS. I do not want to attempt to confuse you, but I think this prepared statement you have given us was prepared for the press. Its primary object is to make it appear that this money is to be used to pay off the public debt, and that is not right; you are not going to get to that place for a long time.

Mr. HILL. Will the gentleman yield?

Mr. JENKINS. Yes.

Mr. HILL. Of course, it is a matter of common knowledge that at the present time the emergency expenditures are running far ahead of the revenues we are getting in, which are just about sufficient to take care of the ordinary expenditures of the Government. We have advanced at this time a program of emergency expenditures which will probably cover 2 years' time. This legislation in reference to additional taxes is, so far as we know now, permanent legislation; at least it would extend over a number of years. We are preparing at this time for revenues to come in during the current tax year, and for succeeding tax years.

It is well known to the members of the committee that inheritance taxes are somewhat delayed in producing revenue; it takes some time for them to get into full operation. That also goes as to gift taxes.

Then it takes some time to get returns from increased or added income taxes. So that revenues will not be coming in tomorrow, or next month; they will be delayed in coming in probably a year, 2 years, 3 years, or 4 years from now. By that time we will have reached the point where we can eliminate emergency expenditures, and begin to apply part of our revenues to the reduction of the public debt.

Mr. JENKINS. Personally, I would like to see some program adopted some time by which we commence to cut down expenses. That would be much more hopeful for the people. You carry a statement that the present administration is going to do something to meet expenses. That will help us to pay off the debt more effectively than promises made that we are going to pay off the public debt by taxation, when we cannot meet expenses now.

Mr. KNUTSON. Right in that connection, I would like to call to the attention of my colleague a paragraph in the President's economy message delivered to Congress on April 10, 1933. In that message he said:

Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products, and the availability of employment. The credit of the United States Government definitely affects these fundamental human values. It therefore becomes our first concern to make secure the foundation. National recovery depends upon it. But often in recent history

liberal governments have been wrecked on rocks of loose fiscal policy. We must avoid this danger.

Mr. JENKINS. That is very appropriate.

Mr. KNUTSON. In that connection, I am wondering whether the President had realized it when he transmitted his budget message to Congress for 1936. He had been in office almost 2 years, and this is what he said in that message:

While I do not consider it advisable at this time to propose any new or additional taxes for the fiscal year 1936, I do recommend that the Congress take steps, by suitable legislation, to extend the miscellaneous internal-revenue taxes which, under existing law, will expire next June or July, and also to maintain the current rates of these taxes which will be reduced next June. I consider that such taxes are necessary to the financing of the Budget for 1936.

The CHAIRMAN. Do I understand the gentleman to be starting out in opposition to any legislation of this kind at this time?

Mr. KNUTSON. No—

The CHAIRMAN. I had been in hopes that the gentleman, with his broad, generous mind, would look upon this legislation with some favor.

Mr. KNUTSON. I would like to have the Secretary to tell this committee what has arisen since the budget was transmitted to Congress up to the present time to necessitate this program. I am sure that no one is better able to give us that information, and I think we should have that before we start out on anything else.

There is nothing partisan in that question; I am asking it for information.

Mr. VINSON. Oh, no!

Mr. KNUTSON. Suppose we have this information now, as to the necessity for these taxes?

The CHAIRMAN. I do not know if the Secretary speaks for the President; the President has spoken himself. If the Secretary wants to elaborate on the President's message, we will hear him. Otherwise, I think it is out of place.

Mr. KNUTSON. The Secretary is the President's financial adviser.

Mr. VINSON. Of course, it is rather unusual in this committee to have any partisan political references made in a matter of this kind. The thought that occurs to me is, in what direction we can go to suit our Republican friends. My friend from Minnesota (Mr. Knutson) is raising the question about enacting any tax measure at all at this time, and in the press I see where other distinguished Republican leaders are wondering whether we have courage enough to bring in a billion-dollar tax measure.

Mr. KNUTSON. Will the gentleman yield?

Mr. VINSON. I would not like to make the gentleman on the minority side unhappy, but we cannot go in both directions at the same time.

Mr. KNUTSON. Of course, what Republicans are hopeful of is that one of these days we will have announced a definite policy that will reassure business. We want to get the Government off of this merry-go-round and get it headed in some definite direction.

Mr. VINSON. I notice that at this time you take the position that we ought not to have any taxes at all. Recently the gentleman

from New York (Mr. Taber) was challenging the administration for lack of courage, and saying that unless they bring in a billion-dollar tax bill their duty has not been performed.

It seems to me you are playing both ends against the middle.

Mr. KNUTSON. We want to avoid this loose fiscal policy.

Mr. VINSON. What is the policy of the Republican members of the committee, and the Republican Party?

Mr. KNUTSON. To reassure business so it will be able to go ahead and open up.

Mr. COOPER. I invite the gentleman's attention to this opening sentence in the President's message:

As the fiscal year draws to its close it becomes our duty to consider the broad question of tax methods and policies.

I think that very clearly forms the basis for the consideration now being given to the subject covered in the message.

Mr. KNUTSON. Is it the prime purpose of this program to redistribute wealth, or to raise additional revenue, Mr. Secretary?

Secretary MORGENTHAU. Mr. Congressman, I cannot add anything to what I have already said in my statement. I tried to make it as plain as possible that we are here to submit an analysis of the schedules which have been given to us. When I have had the honor to appear before the committee before I have taken the position, and I think the committee has taken the position that they do not expect the Secretary of the Treasury to submit new kinds of taxation.

The CHAIRMAN. I think the third paragraph of the Secretary's statement states the primary purpose of the proposed legislation, when he says:

In looking forward to balancing the Budget and reducing the national debt, the primary interest of the Treasury in the legislation which your committee is considering relates to the revenue which it may raise.

That states the primary purpose as emphatically as it can be stated. That is in the statement which the Secretary submitted to the committee this morning.

Mr. KNUTSON. I have not had an opportunity to see the Secretary's statement; I have not seen a copy of it.

I would like to call the Secretary's attention to the President's message of June 19, 1935, where he says, on page 2:

The transmission from generation to generation of vast fortunes by will, inheritance or gift, is not consistent with the ideals and sentiments of the American people.

Then on page 3 he says:

The disturbing effects upon our national life that come from great inheritances of wealth and power can in the future be reduced, not only through the method I have just described, but through a definite increase in the taxes now levied upon very great individual net incomes.

I take it from that, Mr. Secretary, that this is a sort of redistribution of wealth program.

Mr. HILL. Is the gentleman opposed to that?

Mr. KNUTSON. No; I am not opposed to that, but I think the committee ought to know just what we are doing. Let me say this, that if this is a revenue measure, I am going to move that we impose

excise taxes upon commodities coming in here in such enormous quantities as to threaten American industry.

I would like to ask if the Secretary of the Treasury has given any consideration to the proposition of imposing additional excise taxes, say, on textiles, or other things which are coming in and slowly driving American industries to the wall.

Secretary MORGENTHAU. No.

Mr. KNUTSON. The Treasury has not?

Secretary MORGENTHAU. No.

Mr. HILL. I will say there has been no request, as far as I am advised, upon the Secretary of the Treasury to make any such report for this hearing or for any other hearing.

Mr. KNUTSON. I had assumed that the Treasury had viewed this in an attempt to devise different ways in which to raise money.

Mr. HILL. I think the chairman of the committee set out in his opening statement the scope within which the hearings on the present tax program are to be confined, and so the Secretary has been requested to submit the various schedules within that scope, and that is the limit of the request made upon the Secretary for this hearing. It is hardly to be expected that the Secretary would come here with a report on every conceivable phase of the tax question.

The CHAIRMAN. Neither do I assume that any member of the committee or any Member of Congress thinks that the committee should take up for consideration the rewriting of our entire tax law.

Mr. CROWTHER. Mr. Secretary, I am not against a tax bill; I think we should have been prepared to lay more taxes long ago, and I think every member of the committee knows it.

I refer to your statement on page 2, where you say—

But the national welfare demands that, when such an emergency has passed, sufficient income be raised both to meet current expenditures and to make substantial reductions in the debt. The time has come to move in this direction.

By that do you imply that the emergency has passed? I want to ask you first whether that is to be our conclusion, when you say—

But the national welfare demands that, when such an emergency has passed, sufficient income be raised both to meet current expenditures and to make substantial reductions in the debt. The time has come to move in this direction.

Would you think that the emergency period had passed?

Secretary MORGENTHAU. Yes.

Mr. CROWTHER. You think the emergency is over?

Secretary MORGENTHAU. I would not say it is over, but I think the worst is over.

Mr. CROWTHER. I want to ask one more question, and that is, do you think that from your plan as outlined very roughly, not of course in the next year, because that is not what is planned to be done—but do you think that under such a plan the time will come in the country when such a plan will help meet current expenditures and make a substantial reduction in the debt?

I may say I saw by the press that you suggested at the time the bonus bill was under consideration that the Treasury had a plan to produce from 250 to 600 million dollars by various types of taxation. I only know what I see in the press, because we are not taken into the inner councils.

Secretary MORGENTHAU. If I may say what happened at that time, I appeared before the Senate Finance Committee on the bonus

bill at their request. They asked me the question how I thought it could be financed and I told them I thought it could be financed through inheritance taxes. They asked me how much that would produce, and I told them somewhere between 300 and 600 million dollars.

They then asked me to send them a letter explaining in detail how I arrived at those figures, and I think Senator Harrison put that in the record.

Mr. CROWTHER. Then do you think that this method that you have devised, or the suggestions you make will raise money that will help meet current expenditures and make a substantial reduction in the debt.

I am concerned as to whether this taxation is sufficient to meet our present needs.

I think candidly, and I have said this to other people, that the most heartening thing, the thing that would give the greatest confidence to the business men of this country, would be if they knew that this committee was starting in now in cooperation with the Treasury Department on a 4- or 5-year plan to balance the Budget, I think that would be the finest message that could go out to the people of this country.

Mr. HILL. It is my conviction that this program is a move in that direction.

Mr. CROWTHER. If it is, I am going with it so far as my judgment will permit.

Mr. VINSON. Could the gentleman help us with the gentleman from Minnesota?

Mr. CROWTHER. I will do my best.

Mr. KNUTSON. I am afraid this merely means more money for the Government to spend.

In that connection, I would like to ask the Secretary what steps are being taken to reduce Government expenditures and balance the Budget.

Secretary MORGENTHAU. Mr. Congressman, we have just finished the fiscal year with a deficit considerably under the President's estimates, and in every other estimate the President has made to Congress in his last two Budgets he has come well within these estimates. So I will say he has made a good start.

Mr. KNUTSON. What was the deficit this year?

Secretary MORGENTHAU. Exclusive of the sinking fund, it was \$3,000,000,000.

Mr. KNUTSON. That is \$3 for every minute since the dawn of the Christian era, and I do not see that you deserve a great deal of credit by keeping it at that figure.

Mr. VINSON. Do you vouch for those figures?

Mr. KNUTSON. Yes; I vouch for them in toto.

Mr. McCORMACK. As I understand, Mr. Secretary, the primary purpose is to raise revenue; that is the primary purpose?

Secretary MORGENTHAU. From the Treasury's standpoint.

Mr. McCORMACK. That is from the Government's standpoint, of course, and the proposed rates are for that primary purpose. The primary purpose is not to bring about a social change, is it?

Secretary MORGENTHAU. I can only repeat what I said in my statement.

Mr. McCORMACK. I have read what you said.

Secretary MORGENTHAU. I can only repeat what I said.

Mr. McCORMACK. Then your statement is that the primary purpose is to raise revenue.

Mr. KNUTSON. I would say that the Secretary's position seems to be that this is a revenue measure, and the President's position seems to be that this is a share-the-wealth program.

Mr. CROWTHER. I do not know whether the Secretary has answered my question I asked a while ago, as to whether or not he thought this method would raise sufficient money to help meet current expenses and reduce the national debt. Did you answer that question, Mr. Secretary?

This is the question I asked you, if you thought that by this method we might raise sufficient money to help meet current expenses and reduce the national debt.

Secretary MORGENTHAU. Mr. Congressman, I cannot answer that question, because it seems to me it is entirely up to this committee and Congress to decide how much they wish to raise.

Mr. CROWTHER. Have you not any suggestions as to how much would be necessary? In years gone by this committee has been in close cooperation with the Treasury Department and the Department have come in with blueprints showing us their needs, their refunding necessities, and what revenues they expected to get, and at times they have come in with very helpful suggestions as to what new taxes they thought might be imposed.

Now this committee has been told to run along and sell their papers, and the Treasury itself has no policy; it seems we are not working with you any more.

Even though I am on the minority side in this great committee, and I do not have much to say about it, yet I think the men on the majority side are able and capable of working along in cooperation with the Treasury Department on our fiscal policy.

Mr. VINSON. Some of us on the majority side thought it might be taken as a compliment, a recognition of the ability of the committee to legislate under the Constitution.

Mr. CROWTHER. The gentleman from Kentucky, as usual, makes a very graceful exit.

Mr. KNUTSON. I take it as being no distinction that we have passed more legislation that has been held unconstitutional than any other committee in Congress.

Mr. WOODRUFF. Mr. Secretary, do you not believe it would be a good policy for the Department to submit to this committee the amount of money that would be necessary to raise to accomplish what Dr. Crowther has suggested, leaving it to the committee, in line with the suggestion made by our very able and genial friend from Kentucky, to decide where the revenues should be raised?

Secretary MORGENTHAU. I want to say that the very last thing in the world I want you to feel is that we do not want to cooperate with this committee. We need its help at all times.

To answer your question directly, I feel that it is not for the Treasury to make suggestions to this committee as to how much money you should raise.

Mr. WOODRUFF. Do you mean to tell the committee that you do not believe it is the duty of the Secretary of the Treasury to inform the Ways and Means Committee of the amount of money necessary to accomplish the very desirable things mentioned by the gentleman from New York? Otherwise, the committee has no way of knowing how much that sum should be. The committee necessarily must look to you and your Department for that information, and this committee cannot, in my opinion, dispose of this question until we do first have that information from you or your Department.

Secretary MORGENTHAU. I think always since I have been in the Treasury Department we have given the committee every bit of information they wanted. As to this question of how much money should be raised, as far as I am concerned, that decision will have to be made by Congress, and not by me.

The CHAIRMAN. In view of the scope of these hearings, which are being conducted on the basis of the President's message, you have indicated that there is a field of taxation of which we might avail ourselves, without an injurious effect on business or industry, a legitimate, broad field that has not yet been utilized.

If you should come here and say just what the rates should be, and how the money should be raised, then would you not be subject to the usual charge that the administration is trying to dictate to Congress and that Congress is only a rubber stamp?

Secretary MORGENTHAU. I am afraid so.

The CHAIRMAN. Which is the thing that the administration is trying to avoid.

Mr. WOODRUFF. I do not want the chairman to put me in a wrong position, because my question was this, Whether you believed it would be the proper thing for you or your Department to do to give to the members of this committee the amount of money that it would be necessary for this committee to raise in order to accomplish the things outlined by Dr. Crowther. And those suggestions of his were very worthy of your most earnest consideration.

I still insist that inasmuch as your Department is the only department of this Government that has the knowledge and has the information as to how much money we need to at last partially balance the Budget and get on the way to solvency in this country—I still insist that you ought to give this committee that information, and it will not take from the committee any of its prerogatives. It does not destroy any of the dignity of the committee to give it that information which it must have if it is going to act intelligently upon this question.

Mr. HILL. It has been stated that the deficit at the end of the fiscal year 1935 was 3 billion dollars. If, at the end of the fiscal year 1936, the deficit should be 3 billion, or 2 billion, or one billion, and then, if at the end of the fiscal year 1937 it should be nothing at all, we can then hope to balance the Budget without any additional taxes.

Certainly, the gentleman does not expect this committee, and the country does not expect Congress, to levy additional taxes of 3 billion dollars to balance the Budget on the present basis of emergency expenditures.

Mr. WOODRUFF. The gentleman knows that the gentleman from Michigan does not suppose anything of the sort. Further than that, the gentleman can build up a beautiful picture if he uses the figures he has referred to. If it is not correct procedure for the Treasury Department, the only department of the Government that has the information this committee needs, to advise the committee what is necessary to be raised to accomplish definite results in the next few years, than I do not know what is the correct procedure.

Mr. COOPER. The Secretary has presented to the committee the state of the Treasury and the finances of the Government, and has indicated the amount of the deficit as it now exists, and has responded to the request of the committee by presenting certain information and data that is necessary in analyzing the program presented here. With that information available to this committee, then as I understand it, the situation is this, that the committee is prepared, as I believe we are, to go ahead and apply such rates and schedules as are necessary to accomplish the purposes here sought.

Mr. VINSON. It certainly is a question of policy as to the time and manner in which the refunding operations and the payment of the national debt should take place.

Some might want to do it in a year.

The very able gentleman from New York (Mr. Crowther) has made a constructive suggestion with respect to a 5-year period in which to balance the Budget. While I did not use a lead pencil in checking back the figures, I think it might be said, in the rough, that the schedules which were submitted to the Treasury for final estimates will run somewhere between a minimum of \$100,000,000 and a maximum of \$1,000,000,000. Is that somewhere near correct?

Secretary MORGENTHAU. That is about right, sir.

Mr. VINSON. It is for the committee to determine the policy and to determine the amount of taxes that should be imposed at this time.

Secretary MORGENTHAU. That is right.

Mr. KNOTSON. We have a leeway there of \$900,000,000.

Mr. VINSON. This is one time in the history of our country when the Executive relies upon this committee, as they have relied upon it throughout this administration, and as the Executive should have always relied upon this committee, under the Constitution.

Mr. LEWIS. In giving a statement on this subject, Mr. Secretary, I think it would be well, for the purposes of comparison, that a statement be made as to the deficit of the Treasury when this administration took charge, and a statement also as to the 20,000,000 people who were left to us to feed despite Treasury deficit.

Mr. McCORMACK. Now that the political maneuvering is over, Mr. Secretary, let me ask you this question. The ordinary Budget is balanced, is it not? That is true, is it not?

Secretary MORGENTHAU. Yes.

Mr. McCORMACK. And we have an estimated excess or surplus of \$100,000,000 and upward on the ordinary Budget.

Secretary MORGENTHAU. Approximately.

Mr. McCORMACK. And this legislation particularly relates to the extraordinary or emergency outlay?

Secretary MORGENTHAU. That is right.

Mr. McCORMACK. And it is contemplated now, or the intention is to use these increased taxes over a period of time, probably 5 years, as Dr. Crowther very well said—and I agree with my friend from

Kentucky that that was a constructive suggestion. The purpose of this is to meet in the coming years, in the reasonable future, the extraordinary expenses as the result of the humane activities engaged in by the Government during the past 2 years.

Now it is assumed that the necessity of the tremendous outlays after the next fiscal year will have gone by, at least we hope so, and it is reasonable to assume that the extraordinary expenditures we have been compelled to make during the past 3 years will not be necessary during the coming fiscal year. Of course, we have already appropriated for this fiscal year.

I assume it is expected that there will be a considerable dropping off of those expenditures by reason of improved business conditions.

Secretary MORGENTHAU. I think in the President's Budget message of January of this year he mentioned the fact that this year would be the peak of expenditures.

Mr. McCORMACK. And you, as Secretary of the Treasury, in your own right, agree with that?

Secretary MORGENTHAU. In my own right, yes.

Mr. CULLEN. Mr. Chairman, now that we have had all of the politics of this question discussed, let us proceed in an orderly and scientific manner to get some information in regard to the revenue we have to raise. So I move that the next witness be called, and that he be allowed to proceed without interruption until his statement is finished.

Mr. CROWTHER. That is the usual procedure; that is the regular order.

The CHAIRMAN. The next witness is Mr. L. H. Parker, the chief of staff of the joint committee on internal revenue taxation.

Mr. Parker, you may proceed in your own way.

STATEMENT OF LOVELL H. PARKER, CHIEF OF STAFF, JOINT COMMITTEE ON INTERNAL REVENUE TAXATION

Mr. PARKER. Mr. Chairman and members of the committee, with your permission, I shall quote briefly the recommendations of the President, and then devote myself mainly to setting forth certain facts which should be considered in dealing with the fields of taxation affected by these recommendations.

The message of the President contains three definite proposals. One is in respect to higher surtaxes on individuals; another is in respect to a graduated income tax on corporations; and another is in respect to an inheritance and gift tax in addition to our existing estate and gift taxes.

In respect to surtaxes on individuals, the President's message makes the following recommendation:

The application of the principle of a graduated tax now stops at \$1,000,000 of annual income. In other words, while the rate for a man with a \$6,000 income is double the rate for one with a \$4,000 income, a man having a \$5,000,000 annual income pays at the same rate as one whose income is \$1,000,000.

* * * Therefore the duty rests upon the Government to restrict such incomes by very high taxes.

In respect to the graduated corporation income tax, the President's message makes the following recommendation:

I, therefore, recommend the substitution of a corporation income tax graduated according to the size of corporation income in place of the present uniform corporation income tax of 13¾ percent. The rate for smaller corporations might

well be reduced to 10¾ percent, and the rates graduated upward to a rate of 16¾ percent on net income in the case of the largest corporations, with such classifications of business enterprises as the public interest may suggest to the Congress.

In respect to an inheritance tax and gift tax in addition to our present estate and gift taxes, the President's message contains the following recommendation:

I recommend, therefore, that in addition to the present estate taxes, there should be levied an inheritance, succession, and legacy tax in respect to all very large amounts received by any one legatee or beneficiary; and to prevent, so far as possible, evasions of this tax; I recommend further the imposition of gift taxes suited to this end.

It appears that the three recommendations quoted must be continually kept in mind in designing the revenue legislation now under consideration.

PART I. SURTAXES

The President has pointed out the inconsistency of our present graduated surtax, which ceases to be graduated further at the point of the \$1,000,000 income. Our present surtax schedule, as contained in the Revenue Act of 1934, begins with a 4 percent rate on surtax net incomes in excess of \$4,000. The graduation upon this comparatively small amount of net income is sharply increased up to \$100,000. At this point, the surtax curve is considerably flattened out. At the point of the \$500,000 net income, it becomes still further flattened out on account of greater brackets. At the \$1,000,000 point, as before stated, graduation ceases.

Under the revenue act of 1913 graduation ceased at \$500,000, the maximum rate being 6 percent. Under the act of 1916, graduation ceased at \$2,000,000, the maximum rate being 13 percent. Under the act of 1917, graduation ceased at \$2,000,000, the maximum rate being 63 percent. Under the act of 1918, graduation ceased at \$1,000,000, the maximum rate being 65 percent. Under the act of 1921, graduation ceased at \$200,000, the maximum rate being 50 percent. Under the act of 1924, graduation ceased at \$500,000, the maximum rate being 40 percent. Under the acts of 1926 and 1928, graduation ceased at \$100,000, the maximum rate being 20 percent. Under the act of 1932, graduation ceased at \$1,000,000, the maximum rate being 55 percent.

It may be well to note that under the British income tax, graduation ceases at \$250,000 (£50,000), the maximum rate being 41.25 percent. However, the British normal rate of tax is 22½ percent, while the Federal normal rate is only 4 percent. Therefore, in Great Britain, the highest tax on any dollar of income is 63¾ percent, while in the United States, the highest tax on any dollar of income is 63 percent.

At this point, I would like to submit for the record a table showing the total tax (both normal tax and surtax) on certain specific amounts of net income under the Federal Revenue Act of 1934 and the British Finance Act of 1935. The table shows the total tax on specified amounts ranging from \$1,000 to \$10,000,000.

TABLE 1.—*Income tax, individual, married man, no dependents, all "earned income"—Comparison of tax payable on specified net incomes, United States and Great Britain, under Revenue Act of 1934 for United States and under Finance Act of 1935 for Great Britain*

[Conversion unit £1=\$5]

Net income	United States (Revenue Act of 1934)	Great Britain (Finance Act of 1935)	Net income	United States (Revenue Act of 1934)	Great Britain (Finance Act of 1935)
\$1,000.....	\$0	\$0	\$18,000.....	1,299	4,059.38
\$1,500.....	0	26.25	\$20,000.....	1,589	4,729.38
\$2,000.....	0	67.50	\$25,000.....	2,489	6,679.38
\$2,500.....	0	157.50	\$30,000.....	3,569	8,766.88
\$3,000.....	8	247.50	\$40,000.....	5,979	13,216.88
\$3,500.....	26	337.50	\$50,000.....	8,869	18,216.88
\$4,000.....	44	427.50	\$60,000.....	12,239	23,491.88
\$4,500.....	62	517.50	\$70,000.....	16,104	28,766.88
\$5,000.....	80	607.50	\$80,000.....	20,494	34,179.38
\$6,000.....	116	787.50	\$100,000.....	30,394	45,279.38
\$7,000.....	172	967.50	\$200,000.....	87,019	104,904.38
\$8,000.....	248	1,170.00	\$500,000.....	263,944	294,779.38
\$9,000.....	329	1,395.00	\$1,000,000.....	571,394	613,529.38
\$10,000.....	415	1,620.00	\$2,000,000.....	1,201,394	1,251,029.38
\$12,000.....	602	2,180.00	\$5,000,000.....	3,091,394	3,163,529.38
\$14,000.....	809	2,760.63	\$10,000,000.....	6,241,394	6,351,029.38
\$16,000.....	1,044	3,389.38			

At present in the United States, amounts of surtax net income in excess of \$1,000,000 are taxed at the flat rate of 59 percent. In 1933, there were 46 individuals with net incomes of over \$1,000,000, and the total net income reported by them amounted to approximately \$81,000,000. Upon this net income, the total normal and surtax paid amounted to approximately \$26,000,000. Thus, it can be seen that even if we took away under 1933 conditions all that every individual made over \$1,000,000, we would secure only \$35,000,000 in tax. Furthermore, this \$35,000,000 would not represent additional revenue, inasmuch as it would have to be reduced by that part of the \$26,000,000 tax paid under existing law which would be attributable to the part of the net income over \$1,000,000. On the other hand, in 1929 we had 513 individuals reporting over \$1,000,000 of net income each. The total net income reported by these individuals amounted to \$1,212,000,000. It is obvious, therefore, that in such year a large amount of revenue could be secured in these upper brackets. In order to set forth more complete information in respect to these large incomes, the following tables are submitted:

TABLE 2.—*Number of individual returns*

Net income classes	1924	1929	1930	1932	1933
\$100,000 to \$150,000.....	3,065	6,376	3,111	995	1,085
\$150,000 to \$300,000.....	1,876	5,310	2,071	595	693
\$300,000 to \$500,000.....	457	1,641	552	140	139
\$500,000 to \$1,000,000.....	242	976	318	86	81
\$1,000,000 and over.....	75	513	150	20	46

TABLE II.—*Net income shown on individual returns*

Net income classes	1924	1929	1930	1932	1933
\$100,000 to \$150,000.....	\$377,645,000	\$770,536,000	\$374,171,000	\$119,806,000	\$129,276,000
\$150,000 to \$300,000.....	374,609,000	1,087,410,000	419,016,000	118,008,000	138,870,000
\$300,000 to \$500,000.....	171,249,000	628,229,000	207,131,000	52,469,000	53,787,000
\$500,000 to \$1,000,000.....	158,462,000	669,878,000	211,693,000	57,874,000	59,511,000
\$1,000,000 and over.....	155,974,000	1,212,099,000	359,905,000	35,239,000	81,559,000

I might also add that in 1929, there were 38 individuals with net incomes in excess of \$5,000,000; in 1930, 8 individuals with net incomes of this size; in 1931, only 4; in 1932, none; and in 1933, only 1.

It may also be useful to have printed in the record at this point the existing surtax schedule now in force.

TABLE 4.—*Surtaxes under existing law*

Surtax net income	Percent	Total surtax
\$0 to \$4,000.....	-----	None
\$4,000 to \$6,000.....	4	\$80
\$6,000 to \$8,000.....	5	180
\$8,000 to \$10,000.....	6	300
\$10,000 to \$12,000.....	7	440
\$12,000 to \$14,000.....	8	600
\$14,000 to \$16,000.....	9	780
\$16,000 to \$18,000.....	11	1,000
\$18,000 to \$20,000.....	13	1,260
\$20,000 to \$22,000.....	15	1,560
\$22,000 to \$26,000.....	17	2,240
\$26,000 to \$32,000.....	19	3,380
\$32,000 to \$38,000.....	21	4,640
\$38,000 to \$44,000.....	24	6,080
\$44,000 to \$50,000.....	27	7,700
\$50,000 to \$56,000.....	30	9,500
\$56,000 to \$62,000.....	33	11,480
\$62,000 to \$68,000.....	36	13,680
\$68,000 to \$74,000.....	39	15,980
\$74,000 to \$80,000.....	42	18,500
\$80,000 to \$90,000.....	45	23,000
\$90,000 to \$100,000.....	50	28,000
\$100,000 to \$150,000.....	52	54,000
\$150,000 to \$200,000.....	53	80,500
\$200,000 to \$300,000.....	54	134,500
\$300,000 to \$400,000.....	55	189,500
\$400,000 to \$500,000.....	56	245,500
\$500,000 to \$750,000.....	57	388,000
\$750,000 to \$1,000,000.....	58	533,000
\$1,000,000 up.....	59	-----

PART II. GRADUATED INCOME TAX ON CORPORATIONS

The President recommends the substitution of a graduated income tax on corporations in lieu of the present income tax imposed at a uniform rate. He suggests that the graduation might well be from 10¾ to 16¾ percent.

Under existing law, corporations pay a flat tax of 13¾ percent on the entire amount of their net income. In certain former revenue acts relief has been given the small corporation by means of a specific exemption. For example, in the revenue act from 1918 to 1926, inclusive, we exempted the first \$2,000 of net income from tax in the case of corporations having a net income of less than \$25,000. In 1928, the exemption was raised to \$3,000, but in 1932, it was eliminated altogether. This exemption created a certain amount of graduation

in the case of the small corporation. For instance, a corporation with a \$4,000 net income paid tax only on one-half of its net income, which is equivalent to saying that it paid only one-half the standard rate on its entire net income. In the same way a corporation with a net income of \$8,000 paid at a rate equivalent to only three-fourths of the standard rate on its entire net income.

Of course, during the war period, we had excess-profits and war-profits taxes on corporations going as high as 65 and 80 percent, respectively. But these taxes had nothing to do with the size of the corporation—the rate being determined by reference to the ratio between profits and invested capital.

It is true that a comparatively small number of our corporations report the greater part of the total net income shown on the income-tax returns. In this connection, it is pointed out that in 1932, out of 82,646 corporations paying income tax, only 3,730, or about 4½ percent, had net incomes of over \$50,000. This phenomena is not confined to the depression year of 1932; for instance, in 1929, out of 186,591 corporations paying income tax, only 8,044, or less than 4½ percent, had net incomes of over \$50,000.

In order that the record may contain certain important facts in connection with the number of corporations in the various income classes and the amounts of net income reported, I am submitting a table from the statistics published by the Bureau containing such information for the years 1929 to 1932:

TABLE 5.—*Corporation returns for 1929 to 1932 by net income and deficit classes, showing number of returns, net income, and deficit*

[Money figures and net income and deficit classes in thousands of dollars]

Net income classes	1929		1930		1931		1932	
	Number of returns	Net income	Number of returns	Net income	Number of returns	Net income	Number of returns	Net income
Returns showing net income								
Under 1.....	69,456	\$29,281	71,322	\$29,631	70,168	\$27,836	42,070	\$13,121
1-2.....	41,292	61,041	37,881	55,738	31,702	46,328	10,403	14,912
2-3.....	37,675	94,818	32,798	82,605	24,312	60,782	5,734	14,081
3-4.....	19,458	66,920	14,732	50,569	9,703	33,282	3,321	11,506
4-5.....	11,795	52,716	8,367	37,488	5,481	24,519	2,499	11,196
5-10.....	29,627	209,764	19,760	139,687	12,813	90,198	6,259	44,505
10-15.....	13,399	164,277	8,955	109,551	5,321	65,292	2,962	36,271
15-20.....	8,424	145,908	5,392	93,271	3,301	57,080	1,796	31,158
20-25.....	6,641	149,630	3,992	89,664	2,440	54,847	1,172	26,213
25-50.....	12,397	441,615	7,372	262,844	4,450	157,445	2,700	94,913
50-100.....	8,316	582,968	4,905	341,578	2,755	192,198	1,623	113,643
100-250.....	5,974	923,944	3,260	499,648	1,941	296,252	1,159	176,676
250-500.....	2,283	796,186	1,259	438,512	729	252,021	429	150,686
500-1,000.....	1,344	932,110	689	481,838	373	265,232	235	165,567
1,000-5,000.....	1,049	2,116,780	576	1,177,948	321	647,197	225	464,892
5,000 and over.....	300	4,885,929	160	2,538,241	88	1,412,853	59	783,775
Total.....	269,430	11,653,886	221,420	6,428,813	175,898	3,683,368	82,646	2,153,113

TABLE 5.—*Corporation returns for 1929 to 1932 by net income and deficit classes, showing number of returns, net income, and deficit—Continued*

[Money figures on net income and deficit classes in thousands of dollars]

Net deficit classes	1929		1930		1931		1932	
	Number of returns	Net deficit	Number of returns	Net deficit	Number of returns	Net deficit	Number of returns	Net deficit
Returns showing no net income								
Under 1.....	58,154	\$22,657	67,541	\$26,344	48,046	\$30,363	131,273	\$45,683
1-2.....	26,376	38,777	32,805	48,146	38,373	53,376	48,626	70,861
2-3.....	17,520	43,590	22,404	55,564	26,027	64,451	31,146	76,892
3-4.....	12,402	43,239	16,593	57,657	19,280	67,070	22,844	79,367
4-5.....	9,353	41,951	12,325	55,379	14,529	65,098	16,449	73,621
5-10.....	25,028	178,512	34,208	243,935	40,090	284,961	43,854	318,710
10-15.....	11,127	136,219	15,658	191,881	18,464	226,091	20,189	246,910
15-20.....	6,130	106,492	88,882	153,647	10,613	183,750	11,741	203,129
20-25.....	4,009	89,861	5,777	129,329	6,688	149,584	7,458	166,736
25-50.....	8,448	295,037	12,341	431,924	15,219	532,653	15,595	579,563
50-100.....	4,243	295,022	6,680	463,450	7,971	555,143	8,778	608,298
100-250.....	2,444	371,077	4,002	612,510	5,167	794,446	5,592	851,933
250-500.....	749	258,990	1,244	430,634	1,620	562,614	1,835	636,357
500-1,000.....	341	236,428	630	437,108	881	613,928	934	650,386
1,000-5,000.....	244	468,723	483	949,652	712	1,416,923	782	1,544,855
5,000 and over.....	23	287,554	43	500,434	123	1,367,460	142	1,643,385
Total.....	186,591	2,914,128	241,616	4,877,595	283,806	6,970,913	369,238	7,796,687
Returns showing no income data—Inactive corporations.....	53,415	-----	55,700	-----	56,760	-----	56,752	-----
Grand total—net income less deficit.....	509,436	8,739,758	513,736	1,551,218	516,404	3,287,545	508,636	5,643,574

From Statistics of Income for 1932, published by the Bureau of Internal Revenue.

PART III—A. INHERITANCE TAX

The message of the President recommends that an inheritance tax should be levied on very large amounts received by any one legatee or beneficiary, and that this tax should be in addition to the existing Federal estate taxes. The President states that—

inherited economic power is as inconsistent with the ideals of this generation as inherited political power was inconsistent with the ideals of the generation which established our Government.

The task of designing a proper inheritance tax law is a difficult one, for in addition to the problem of rates, which is the principal issue involved in the surtax proposal and which is also the principal issue involved in the proposal in respect to the graduated income tax on corporations, many troublesome questions must be answered before an equitable and constitutional inheritance tax law can be written. For convenience, I will make a brief statement on our existing death-tax system before discussing the many technical and administrative questions arising in connection with the design of an inheritance tax law. It will be necessary to state at the outset that an inheritance tax is based on the value of the share of each beneficiary while an estate tax is based on the total value of the estate, and that inheritance-tax rates will, as a general rule, apply only to the net share of the beneficiary.

Under existing Federal laws, we have two estate taxes. The first, imposed by the Revenue Act of 1926, is graduated to 20 percent, allows a specific exemption of \$100,000, and an 80 percent credit for State death taxes paid. The second, imposed by the Revenue Act of 1932, as amended by the Revenue Act of 1934, is graduated to 60 percent, allows a specific exemption of \$50,000, and no credit for State death taxes paid.

However, in the average case, to compute the total death-tax burden we have only to look at the rates of the 1932 act as amended by the 1934 act. This is because these rates are used to compute a tentative tax from which is subtracted the tax computed under the Revenue Act of 1926. Let me make this clear by an example:

Assume a \$100,000,000 estate. The tentative tax under the 1932 act as amended will be slightly less than \$60,000,000, the maximum rate being 60 percent. The tax under the 1926 act will be slightly less than \$20,000,000, the maximum rate being 20 percent. Now, against this latter tax may be credited 80 percent, or about \$16,000,000, for State death duties paid, so that in such a case the estate will pay as follows:

To the Federal Government (under the 1932 act as amended) -----	\$40, 000, 000
To the Federal Government (under the 1926 act)-----	4, 000, 000
To the State Government-----	16, 000, 000
Total-----	60, 000, 000

Thus, the total tentative tax computed under the Revenue Act of 1932, as amended, represents the total tax burden in such a case.

There are, however, some cases where the States have taxes higher than the 80 percent credit allowed, and in such cases there is a tax burden greater than that which would be computed under the rates in the 1932 act, as amended.

To show what the present estate-tax burden is in the general case where the local taxes do not exceed the 80 percent credit allowed by the Revenue Act of 1926, I submit for the record a table showing the amount of tax computed under the rates contained in the 1932 act, as amended by the 1934 act. This table shows the tax burden on estates of various sizes, from \$2,500 to \$100,000,000, both in this country and in Great Britain.

TABLE 6.—*Estate tax, comparison of the estate tax (before credit) payable on specimen net estates in the United States (under the Revenue Act of 1934) and in Great Britain (under the Finance Act, 1930)*

Net estate (before exemption ¹)	United States tax (before credit ²)	British tax (in dollars at \$5 for £1)	Net estate (before exemption ¹)	United States tax (before credit ²)	British tax (in dollars at \$5 for £1)
\$2, 500	None	\$25	\$500, 000	\$59, 100	\$95, 000
5, 000	None	100	600, 000	78, 100	120, 000
25, 000	None	750	800, 000	120, 600	192, 000
50, 000	None	2, 000	1, 000, 000	169, 000	240, 000
100, 000	\$1, 500	8, 000	2, 000, 000	461, 100	600, 000
150, 000	5, 600	15, 000	5, 000, 000	1, 692, 600	1, 990, 000
200, 000	11, 600	24, 000	10, 000, 000	4, 387, 600	4, 500, 000
300, 000	25, 600	48, 000	50, 000, 000	28, 386, 600	25, 000, 000
400, 000	41, 600	72, 000	100, 000, 000	58, 386, 600	50, 000, 000

¹ The specific exemption for the purpose of the Federal estate tax is \$50,000; for the purpose of the British estate duty, £100. (See also the following note.)

² The tax credit allowed is for State inheritance, estate legacy, or succession taxes paid. This credit is limited to 80 percent of the tax computed under the Revenue Act of 1926, for the purpose of which computation the specific exemption is \$100,000.

I also submit for the record a table showing the number of Federal estate-tax returns filed during the calendar years 1929 to 1933, inclusive, classified according to the size of the net estate before the deduction of the specific exemption:

TABLE 7.—*Number of estate-tax returns filed*

Net estate class (before exemption). (000 omitted)	Calendar years—					Average number of returns per year
	1929	1930	1931	1932	1933	
Under \$100.....	1, 824	1, 770	1, 969	2, 009	4, 907	2, 496
\$100-\$150.....	2, 258	2, 258	2, 154	1, 869	1, 485	2, 011
\$150-\$200.....	1, 189	1, 236	1, 112	893	729	1, 032
\$200-\$300.....	1, 132	1, 235	1, 100	899	688	1, 011
\$300-\$500.....	998	1, 006	908	701	467	818
\$500-\$700.....	414	425	353	267	172	326
\$700-\$900.....	221	257	198	147	83	181
\$900-\$1,100.....	137	132	110	86	63	105
\$1,100-\$1,600.....	149	190	178	99	57	134
\$1,600-\$2,100.....	79	98	86	49	29	68
\$2,100-\$2,600.....	41	57	43	22	18	36
\$2,600-\$3,100.....	29	35	26	17	6	23
\$3,100-\$3,600.....	12	13	19	10	5	12
\$3,600-\$4,100.....	14	16	14	9	2	11
\$4,100-\$5,100.....	14	28	18	9	8	15
\$5,100-\$6,100.....	10	8	13	7	4	8
\$6,100-\$7,100.....	7	7	8	7	1	6
\$7,100-\$8,100.....	3	7	4	2	1	3
\$8,100-\$9,100.....	3	4	2	4	2	3
\$9,100-\$10,100.....	2	1	1	1	0	1
\$10,100 and over.....	16	15	17	6	0	11
Total.....	8, 582	8, 798	8, 333	7, 113	8, 727	8, 311

It is now necessary to come to the subject of the technical and administrative details of the inheritance tax. Many questions of policy must be answered before such a tax can be drafted. I will content myself with raising what seems to be the most important of these questions, discussing same, and suggesting possible answers thereto.

QUESTION 1

Should the rates attach to the net value of the share transferred to each beneficiary?

It is probable that the answer to this question should be in the affirmative; that is, if the share of the estate passing to a beneficiary is \$200,000 after all the debts and expenses have been paid and after the Federal estate tax and State and local death duties have been paid, then the inheritance tax should be on the \$200,000. That is, if the inheritance tax on \$200,000 should be \$4,000, then the beneficiary in such a case would receive net \$196,000. In other words, the inheritance-tax rates should be applied to the net value of the property which would actually be received by the beneficiary except for such reduction which results from the new inheritance tax.

QUESTION 2

As of what date should the property transferred to each beneficiary be valued?

One answer to this question would seem to be, in view of the fact the inheritance tax is superimposed on existing high estate taxes, "at the time the beneficiary comes into actual possession and enjoyment

of the property." The date of coming into actual possession and enjoyment is suggested to prevent any legal obstacles from the use of the terms "date of distribution" or "date of acquisition." For instance, it has long been the settled legal rule that real property vests in the heirs immediately at the death of the owner. Moreover, the Supreme Court of the United States has held in an income-tax case (*Brewster v. Gage*, 280 U. S. 327) that personal property is also acquired by the beneficiary for all practical purposes as of the date of death. To show the effect of the rule: "The property passing to the beneficiary shall be valued as of the date of coming into actual possession and enjoyment", the following example is given:

Suppose a citizen of the United States dies, after the enactment of an inheritance tax, leaving real property of the value of \$1,000,000 by specific bequest to the son, and the residue of personal property of a value of \$1,500,000 to the widow. The above-mentioned values are as of date of death. Suppose the debts and expenses of the estate to be \$500,000, the State death duties to be \$99,600, and the Federal estate tax to be \$361,500. This leaves, on the basis of values at date of death, real property of the value of \$1,000,000 distributable to the son, and personal property of the value of \$538,900 distributable to the widow.

Now suppose the estate is settled 1 year after the decedent's death, so that it has been determined that the real property left to the son will not be subject to the debts of the estate, and that on that date, therefore, the son comes into full possession of the property so that he could sell same without encumbrance. Assume at this date the value of the real property has increased to \$1,200,000. Then the son will be taxed on a value of \$1,200,000 under the rule suggested.

Now, in respect to the share of the widow (worth net \$538,900 at date of death) consisting of personal property, suppose she received in cash 6 months after the decedent's death, \$10,000, and suppose she received in stocks and bonds, 1 year after the decedent's death, securities of a value as of such latter date of \$490,000. Then the inheritance tax of the widow will be based on the total value at the date she comes into possession or enjoyment of the property, or on a value of \$500,000.

QUESTION 3

How shall a life estate be taxed?

One answer to this question might be as follows:

"The value of a life interest shall be determined by the American Experience Tables at 4-percent compound interest" (this is the Massachusetts rule). The tax should apply to the value as of date of coming into actual possession and enjoyment, which would generally be the date upon which the beneficiary began to receive the income from or use of the property. Broad discretion probably should be vested in the Commissioner in order to allow this tax to be paid in installments over a series of years in the case of undue hardship created by immediate payment of the tax.

QUESTION 4

How shall an estate for years be taxed?

The answer in this case should be consistent with the answer in the case of life estates, except that experience tables of mortality would not be used. The value could be determined by discounting

the expected income for the stated term of years back to the date of coming into possession and enjoyment at 4 percent compound interest.

QUESTION 5

How shall a vested remainder be taxed?

In view of the suggested general rule under question 1, in view of the procedure in Massachusetts, Michigan, Pennsylvania, and Virginia, and in view of the existing estate tax payable 1 year after death, it would appear that the inheritance tax should not be collected until the remainderman comes into actual possession and enjoyment of the property. The value to which the tax attaches would be as of that date. However, it would seem reasonable to allow the remainderman to pay the tax at any time before it is due on the basis of the then value of his remainder interest. This is allowed under the Massachusetts inheritance-tax law.

QUESTION 6

How shall a contingent remainder be taxed?

In the case of contingent remainders, it would appear that the Federal Government should be content to wait until the contingency happens and then come in for its tax on the basis of the value then existing when the beneficiary comes into actual possession and enjoyment of the property. This appears to be the rule in Massachusetts, Kansas, Michigan, New Jersey, Pennsylvania, Texas, and Virginia.

For example, suppose A leaves an estate to B for life, remainder to B's children, if any, but if B has no children than to C. In such a case, we would get the tax on B's life estate at once, but we would wait and tax B's children or C, as the case might be, when they came into possession or enjoyment.

Some consideration might be given to the proposition of giving the commissioner the right to receive payment of the tax in advance on account of the value of contingent remainders on a fair compromise basis in light of the facts in each case.

QUESTION 7

Who shall pay the tax, the beneficiary or the executor?

It would appear reasonable for the executor to pay the tax in whole or in part, except where the tax was paid only in part then the beneficiary should file a bond for the part of the tax remaining unpaid, or should give such other security as the commissioner should approve with the view of preventing undue hardship.

QUESTION 8

Shall a lien attach to the property for payment of the inheritance tax?

Probably no lien should attach to the property until the commissioner has given notice and made demand on the beneficiary for the tax, but the lien, if it does come into effect, should attach not only to the property distributed but to the proceeds of such property.

QUESTION 9

Shall any effect be given to the principle of consanguinity?

It is usual in the case of inheritance taxes to give some effect to the principle of consanguinity. This is often done by a specific exemption. Usually the widow receives the largest exemption, and the children and husband the next largest. Here, however, we are dealing with an inheritance tax reaching only large inheritances, and such a system seems out of place. Germany at one time had an inheritance tax which exempted entirely property passing to the widow or to the widower. The idea behind this system seems to have been that it was fairer in the average case not to tax more than once in the same generation. For example, if we tax the property passing to the widow and then she dies in 6 or 7 years and the same property passes to the son, we get two inheritance taxes, whereas if the father had left the property directly to the son there would have been but one tax in the same period of time. As a general rule, of course, the date of the widow's death will be many years nearer the husband's than the date of the son's death.

It will be well to consider the proposition of computing the widow's inheritance tax at the suggested rates, and then allowing her a specific percentage reduction from such tax.

QUESTION 10

When shall the tax be payable?

It appears that the tax might be well made payable when the beneficiary comes into possession and enjoyment. However, in order to prevent the disruption of going businesses, a fairly long period for the actual payment of the tax probably should be allowed where any substantial hardship can be shown to the commissioner from the immediate payment of the tax on the due date. Even a 12- or 15-year period would not seem excessive in many cases. It appears that the rate of interest should be reasonable in such cases.

QUESTION 11

When should the statute of limitations run?

It appears that the statute of limitations should not bar collections of assessed taxes for as long a time as is permitted for instalment payments. That is, the statute of limitations on collections might run from 12 to 15 years after the due date. On the other hand, the period allowed for the assessment of additional taxes or for the refund of taxes might be much less.

PART III—B ADDITIONAL GIFT TAX

The President in his message recommends the imposition of an additional gift tax in order to prevent avoidance of the new inheritance tax.

In the case of our present Federal gift tax law, the rates are approximately three-fourths of the total rates imposed by the Federal estate tax laws. The reasons for this reduction in rate are as follows: First, it was desired to give reasonable encouragement to the making of gifts. Second, it was believed, that under high gift taxes, very

few gifts would be made unless the rate on such gifts was below the estate tax rates. Third, the Government gains by an increase in the volume of gifts in that it receives the money sooner and, therefore, if we computed interest upon the gift up to the date of death in the ordinary case, no great loss of revenue would be found.

The existing gift tax law is cumulative in effect, is paid by the donor, and attaches to all gifts to whomsoever made after the date of passage of the gift tax act. This existing gift tax is, of course, complementary to the present estate tax system.

We are now faced with designing a gift tax which will be complementary to the proposed inheritance tax. It seems that in the case of this additional gift tax, therefore, the tax should attach to all gifts made to a donee from any one donor and should be paid by the donee, or possibly that the tax should attach to all gifts received by any one donee regardless of the source of such gifts. It appears in any event that this tax should be cumulative as is the case with our present gift tax.

It is possible that the gift tax could be incorporated and made a part of the inheritance tax law by placing an excise tax on the transfer of property by gift, devise, bequest, or inheritance. However, for the purposes of this statement, it seems simpler to treat of the two taxes separately.

In respect to the designing of this additional gift tax, it is believed that insofar as possible the general principles adopted in connection with the inheritance tax should be followed.

It seems unnecessary, therefore, to go into these technical details until a final determination has been arrived at in connection with the inheritance tax.

For the first 11 months of this fiscal year we have received about \$71,000,000 from our gift tax against about \$128,000,000 from our estate tax. Thus, it can be seen the gift tax is far from unimportant. The present gift tax rates are graduated to 45 percent on gifts of over \$10,000,000.

That concludes what I have to present, Mr. Chairman.

Mr. HILL. I would like to get a little clarification, for my own mind, as to how you are going to treat the gift tax and inheritance tax separately, insofar as the gift taxes are imposed to protect inheritance taxes. In other words, you have a gift tax to protect the estate tax now?

Mr. PARKER. That is correct.

Mr. HILL. When would the occasion arise for a gift tax to protect the inheritance tax?

Mr. PARKER. If we do not have a gift tax then it is obvious that by the making of gifts, the inheritance tax can be evaded, just exactly as, for many years, our estate tax was evaded in the absence of any gift tax.

Mr. HILL. A gift is inter vivos, is it not?

Mr. PARKER. Yes, sir.

Mr. HILL. Inheritance taxes follow death of the original owner of the property?

Mr. PARKER. That is correct.

Mr. HILL. How can there be a gift after the death of one of the parties?

Mr. PARKER. What I mean is this. If we combine the two taxes, you would have an excise tax, not resting on the proposition of the privilege of transferring property at death, but on the privilege of the acquisition of property; that is, on the right to receive instead of the right to give—the right to receive any property without consideration.

As far as the beneficiary of a bequest is concerned, if he gets property by will, he receives something for which he paid nothing, the same is true in the case of a gift *inter vivos*—he receives property for which he has paid nothing.

Mr. HILL. Suppose there is a bequest or a legacy. Would you treat that as a gift and not as an inheritance?

Mr. PARKER. I would simply treat it as an acquisition of property for which nothing had been paid. It is a tax on the privilege of the transfer, whether by inheritance or gift. Instead of having two classes, we merge them all into one.

Mr. HILL. I do not believe you get the point that I have in mind. We have the gift tax to protect the estate tax. Whenever a gift is made *inter vivos*, the gift is taxed and is deducted, as I understand it, from the estate in arriving at the net estate upon which the estate tax is to be calculated.

Mr. VINSON. Will the gentleman yield?

Mr. HILL. I would like to finish this one point. Now, after a man dies, he cannot make a gift, but he leaves a will bequeathing certain property to certain individuals. You levy upon that bequest an inheritance tax or, if there is no will, and his natural heirs inherit, you levy a tax upon that inheritance. But where is there any opportunity for a gift in lieu of an inheritance?

Mr. VINSON. Will the gentleman yield?

Mr. HILL. In just a moment.

Mr. VINSON. We must not confuse a bequest with a gift.

Mr. HILL. I am just asking what the situation is. I did not think that myself.

Mr. VINSON. A bequest is not a gift *inter vivos*. A bequest or a legacy under a will operates as of the death of the owner of the property. That is certainly not a gift.

Mr. HILL. And on that there is an inheritance tax.

Mr. VINSON. There is an inheritance tax. First, the corpus of the estate would be subjected to the estate tax, and then if this estate were sufficient for this bequest to eventuate, the bequest would carry an inheritance tax. But the gift tax is based upon the transfer of property, the disposition of property, during the lifetime of the owner of the property. It is *inter vivos*, as the gentleman from Washington says, and you collect the tax before the death of that person. It has no connection whatever with the estate or with the inheritance.

Undoubtedly, any gift tax that would be imposed to protect the inheritance or estate tax, is simply an added tax, a tax added to the present gift tax; is not that correct?

Mr. PARKER. Not necessarily. It might be on a different basis. I did not intend, of course, to mean that a gift is the same as a bequest, because it is not. But you might make a more general classification of an excise tax on the transfer of property as an incident both of a bequest and of a gift.

Mr. VINSON. But a tax upon a gift has no connection with an inheritance tax or with an estate tax.

Mr. HILL. Then in what way does it protect the inheritance tax?

Mr. VINSON. It would be a tax on gifts which, under the present suggestion, would be less than the tax upon inheritances, and would permit the man who owned the property and who wanted to transfer the title by gift, to avoid payment of the larger inheritance tax.

Mr. HILL. Now, on that point, let me ask this question. We have a gift tax now. It protects the estate tax. If you are also going to protect the inheritance tax, will you levy two taxes on the gift, one to protect the estate and one to protect the inheritance tax?

Mr. PARKER. That is one way to do it.

Mr. VINSON. Will there be two gift taxes or will the gift tax be added to the present gift tax?

Mr. PARKER. There would be two, I think, Mr. Vinson.

Mr. VINSON. I cannot, for the life of me, see why——

Mr. HILL (interposing). The gentleman is getting down to the point that I had in mind. If there are two gift taxes you can determine what the gift tax is, so far as the protection of the estate tax is concerned. But how are you going to determine what the gift tax shall be, as a protection against the inheritance tax? In other words, you do not know what the inheritance will be and so you do not know what the tax would be, and you do not know how they would be related.

Mr. PARKER. Let me give you an example to show how this works out, and I think that will perhaps answer the question a little easier.

Suppose we have a case of a father and a son. The father has \$1,000,000. Let us say that he waits until he dies, or does nothing until he dies, about the property. Then if the property passes, there will not be any question of a gift tax, but it will be a question of an estate tax or an inheritance tax. When he dies, the first thing payable will be the estate tax, which, under existing law, will be around \$170,000.

Mr. McCORMACK. What would it be under the new proposal?

Mr. PARKER. There are no rates proposed. The existing estate tax would be \$170,000 which, deducted from the \$1,000,000, leaves \$830,000. We will just assume that the inheritance tax on that amount, all going to the son, would be \$200,000. Then the son will get net \$630,000. There are your two death taxes.

Mr. McCORMACK. Under the present law is that tax \$200,000?

Mr. PARKER. No. I just picked that figure out of the air. That will be according to whatever rate is finally determined upon, whatever the committee sees fit to prescribe.

Mr. McCORMACK. What would he pay now?

Mr. PARKER. \$170,000. That would be all. There is no inheritance tax.

Mr. McCORMACK. As I understand it, he would pay no inheritance tax?

Mr. PARKER. Oh, no. There is none now on the books.

Mr. McCORMACK. I understood that. I wanted to be sure.

Mr. PARKER. I am just assuming, in order to carry this example forward, that under your inheritance-tax law, the tax would be, say, \$200,000.

Mr. VINSON. Will the gentleman yield?

Mr. HILL. I will yield.

Mr. PARKER. I have not finished this example.

Mr. VINSON. I know, but it seems to me we have to go back to the starting point, or would have to, after you finished your example. I think perhaps what I have in mind will help clear up this situation. Mr. Stam suggests to me that under the proposed gift tax, the donee will pay the tax. Under the existing law, the donor pays the tax.

So far as the donor is concerned, he pays the tax under the present law. The proposed new gift tax provides that the donee shall pay it.

Mr. PARKER. That is right.

Mr. VINSON. So far as the purpose of avoiding the payment of a higher tax after death, it seems to me in essence, it really is an additional tax to that which is now invoked.

Mr. HILL. Let us find out about that. Suppose you transfer the burden of paying the gift tax from the donor to the donee. The donor then pays no gift tax.

Mr. PARKER. Yes; he pays the present tax.

Mr. HILL. I am talking about the effect——

Mr. PARKER. He will not pay the new one; no.

Mr. HILL. I am assuming that the effect of a gift tax to protect inheritances or inheritance taxes, would be to transfer the duty of payment of the gift tax from the donor to the donee.

Mr. VINSON. That is what we are told.

Mr. HILL. Then the donor would not pay any gift tax to protect the estate tax.

Mr. PARKER. It will be necessary to have two gift taxes. You need the old gift tax to protect the estate tax and then you need the new one to protect the inheritance tax. The donor would pay one and the donee would pay the other.

Mr. HILL. The donor would pay a gift tax and the amount of the gift tax would be deducted from the corpus of the estate.

Mr. PARKER. There is no gift there.

Mr. HILL. I mean at death. It would be deducted at the time of the gift and taken away from the estate, if it were the case of a gift.

Mr. VINSON. It is not computed in the estate tax.

Mr. PARKER. Not in the average case.

Mr. HILL. At the same time, the donee pays an inheritance tax at inheritance-tax rates. You would have two rates of tax on the gift. Is that the answer to the question?

Mr. PARKER. I think that is it, and I think if you will let me complete my example, you will see the point clearly.

Mr. HILL. I am just asking for information.

Mr. PARKER. Going back to the example that I gave you, here is a man and his son. The man has a million dollars. At present estate-tax rates, there would be a tax of \$170,000. That leaves \$830,000. We will assume that the new inheritance tax on that inheritance will be \$200,000, leaving \$630,000.

Suppose a man wants to give that property away before death, *intervivos*. He has got a million dollars. He gives it to his son. Of course, he cannot give him all of that amount if that is all he has,

because he has to pay a gift tax under the existing law of about \$120,000.

Mr. VINSON. If he gave him the same amount.

Mr. PARKER. Yes. The present gift tax is about \$120,000 on a gift of \$1,000,000. That leaves to the son \$880,000. That is a gift, *intervivos*.

If we do not put a gift tax on the donee, the beneficiary is going to have \$880,000 left instead of \$630,000 that he would have received if the father had waited until he died before transferring the property.

So the proposition is to put a gift tax on the donee of about three-fourths of the inheritance tax, or \$150,000, and taking your \$150,000 from your \$880,000, you will have, I believe, \$730,000 left instead of \$630,000. In other words, there will be some incentive left to make the gift. But you will not be able completely to eliminate the effect of the inheritance tax if you provide this additional gift tax.

Mr. McCORMACK. How much is it estimated that that will raise?

Mr. PARKER. I think the Secretary gave figures this morning over a very wide range; something like from \$7,000,000 to \$600,000,000 or \$700,000,000. I have not had the opportunity to look over the final estimates presented this morning.

Mr. LEWIS. Mr. Parker, in the earlier part of your paper you gave data with reference to income, inheritance, and corporation taxes levied in Great Britain.

Mr. PARKER. Yes, Mr. Lewis.

Mr. LEWIS. And you gave specific rates, also some comparisons with your own?

Mr. PARKER. Yes, sir.

Mr. LEWIS. What I would like you to do, in connection with those tables, if it is not too late, is to give the committee a comparison like this: Taking the total body of net income say of the corporations in Great Britain and the United States, find the percentage realized on that body of income in corporation taxes. Take the total body again of the individual incomes in the United States and in Great Britain, find the average receipts from that total body in both countries, and then get an average percentage; and also do the same with reference to inheritance taxation.

I think it will show—whatever it shows I wish to know the facts—that the proportion of the corporate net income taken in Great Britain is very much greater than in the United States; and that the proportion of the net income in the case of individuals' and inheritance taxes would probably be four times as great there as in the United States, even when including taxes now imposed by some 25 States.

In connection with those tables, I would like to have those comparisons.

Mr. HILL. And include also the Federal estate tax.

Mr. LEWIS. Yes.

Mr. PARKER. I shall be glad, Mr. Lewis, to put such a table in the record though, if you will let me put it in perhaps at some subsequent point, I will appreciate it, because I will not be able to have it ready for the first preliminary print.

Mr. LEWIS. Very well.

Mr. PARKER. I will say in advance, though, that what you stated is going to be shown on the face of the figures. I know that you will find a larger sum is taken from corporate net incomes. Of course,

the British system is quite different. Their rate is 22½ percent against our 13¾ percent.

On the other hand, they allow dividends to go completely tax-exempt from the normal tax of 22½ percent in the case of individuals. So there is a shifting of the burden from individuals to corporations; there is an apparent shifting.

Mr. VINSON. What is the corporate tax in England now?

Mr. PARKER. Twenty-two and one half percent.

Mr. VINSON. When did they reduce it?

Mr. PARKER. In the Finance Act of 1934. It was 25 percent. The highest rate, as I recall it, was 27½ percent.

Mr. CULLEN. What is their base on inheritance taxes?

Mr. PARKER. They go to a maximum rate of 50 percent on net estates of over 10 million.

Mr. HILL. You mean net inheritances?

Mr. PARKER. No; net estates. The British have an estate tax that produces the great body of their death-tax income.

They have a legacy and succession duty in addition to the estate tax which is on the net share of each beneficiary. That legacy and succession tax is not graduated, but there are three or four different rates, depending upon the degree of relationship as between the decedent and the beneficiary.

You take a widow, she pays the very lowest rate—perhaps 1 percent, as I recall it. I believe the direct heirs, the sons, only pay 1 percent. The others pay 5 percent. I believe a stranger in blood pays 10 percent.

But you can see, of course, that in the ordinary case, with an estate passing to near relatives, the rate being a flat rate, not graduated, it is very low and the British legacy and succession duties do not bring in a great amount of money.

Mr. McCORMACK. Mr. Parker, what is your viewpoint on paying both an estate tax and an inheritance tax? Do you think that is just?

Mr. PARKER. Well, it has been done in a great many countries.

Mr. McCORMACK. Does it not savor of double taxation?

Mr. PARKER. I do not think so necessarily. You can do it in that way and adjust the burden. I think it is a good deal a matter of the rate. We have two estate taxes. That seems a little bit complicated, to have two estate taxes.

Mr. HILL. If the gentleman will yield, a corporation income tax is paid by the corporation.

Mr. McCORMACK. I am talking about estates.

Mr. HILL. But on that very point, the distribution of dividends, made from that net income, carries an income tax on the individual. It is paid on the money that he gets from the corporation.

Mr. McCORMACK. That is an entirely different proposition.

Mr. HILL. It is double taxation. That is what I am talking about.

Mr. McCORMACK. There is a clear line of distinction there. A corporation is a separate entity. But let me ask you this question, Mr. Parker—

Mr. HILL. If the gentleman will yield just a moment, on that very point, you have a normal tax and a surtax on individual income. That is double taxation.

Mr. McCORMACK. That is a different situation, also. I can see a clear line of distinction there.

Mr. VINSON. Let us see; how are normal taxes and surtaxes double taxation?

Mr. McCORMACK. I was assuming that academically what the gentleman stated was correct. But I can see a clear distinction in those cases.

Mr. VINSON. It is not taxing the same money—the normal tax and the surtax.

Mr. McCORMACK. Let me give you this example. Suppose a man has a million dollars, and it is invested in a going business. Of course, we know that money is not wealth. Money is simply a medium of exchange. As I understand it, property and services constitute the wealth of a nation. Let us say that "A" has a million dollars, but he has it invested in a going concern and that concern gives employment to a hundred people or 50 people or 75 people.

Of course, when he dies, it is expected that he should pay an estate tax. But then his heirs are going to have imposed upon them what is in the nature of an income tax. That is really what it is. In other words, this inheritance tax is really an income tax. It is on the same theory.

But here we have an estate of a million dollars. Under the present law, \$170,000 tax is paid. I do not know what might be reported out under the new bill, but let us say that there is superimposed another tax of \$200,000.

You have to get that out of that property. You have to dispose of the property in order to get the money to pay the tax. If you do that, what is going to happen to the employees, the people who are dependent upon that business for their livelihood?

Can you give us an expression on that?

Mr. PARKER. Well, Mr. McCormack, that is one of the difficult questions. There are two ways to meet it; one, not to take too much, and the other, to give them sufficient time to pay it so that, to a considerable degree, the income from the property will pay the tax.

We already give, in the case of the estate taxes, as much as 8 years for the payment of the estate tax.

I have suggested that the committee might give consideration, in the new taxes, to giving 12 years' time to pay the tax, in order to prevent a disruption of business.

Mr. McCORMACK. It is likely to result, in many cases, in a liquidation of the business.

Mr. PARKER. I think a longer period of time in which to pay the tax would help greatly.

Mr. McCORMACK. Of course, I distinguish clearly between profit-sharing legislation—that is, legislation for the purpose of distributing profits, and legislation for the purpose of distributing wealth, because wealth makes profit. Am I right, in a general way?

Mr. PARKER. That, of course, is a question of policy and point of view. I would like to be excused from answering that question.

Mr. McCORMACK. In any event, if we levy too heavy taxes all along the line, particularly where there are investments in going concerns, it is likely to result in the liquidation of those concerns, unless they are given extreme consideration. Even then it is a danger point.

Mr. PARKER. Going back to the point about double taxation that was made a few moments ago, death taxes and gift taxes, I do not believe it makes much difference whether we have one or three or a

dozen. What really counts, in the case of death, is how much is the beneficiary going to get out of the estate? So that if you pay one tax or three taxes, you should determine how much you want the beneficiary to have left. That is all there is to it. You cannot hurt the dead man. He has gone. He has not taken his property with him. What you are interested in is designing a system by which you are going to leave the beneficiary the amount of money that you want him to have. The number of taxes, whether one or three, is a mere matter of mechanics.

Mr. McCORMACK. Of course, you cannot hurt the dead man, but on the other hand, the dead man, during his lifetime, might say, "Why should I amass, or try to amass, a fortune of a million dollars and conduct a business and give employment to people when it will be all taken away from me when I die or will be taken away from my heirs when I die, and the business disrupted?"

In other words, you must keep in mind that it is not merely the wealth that is amassed, but the employment that is given to people by the use of that money in business.

These people have to depend on the success of the business to receive proper wages for their services. If the estate taxes are too burdensome, you are liable to cut down individual initiative which might, in turn, affect the destiny of many persons who might otherwise receive employment. In other words, it might curtail activity. There are many factors that must be taken into consideration. There are disturbing features.

Mr. PARKER. It is a very troublesome question, Mr. McCormack.

Mr. LEWIS. Mr. Parker, I know you are going to be very busy with this work. I want to inquire whether, in your files, you may not already have data and plans or proposals showing what may be practical in the way of levying a graduated tax on the income of corporations, with reference to the degree of return on the actual investment. You understand what I mean?

Mr. PARKER. Yes, sir.

Mr. LEWIS. Under those circumstances a small corporation might be earning 100 percent on the investment and, like the individual, have a graduated rate. A large corporation might be earning very little, if anything, on the actual investment.

I will not ask you to make an independent study of that question, but if you have such data I would like to have it for the record.

Mr. PARKER. We have, of course, two things. We have the complete experience and the statistics in connection with our old excess-profits tax. That tax was a very difficult tax to administer, but it brought in very large amounts of revenue. That was repealed effective in 1922.

There have been some other studies made. Senator Couzens introduced one in the Senate proposing an excess-profits tax based on the declared value of the capital stock of the corporation, as declared under the existing capital-stock-tax law.

Those two propositions have been about the only ones proposed.

I have considerable data in the files on those matters, though hardly in such form as would be proper to put into the record. We could possibly secure something on that point before the hearings are completed.

Mr. VINSON. Mr. Chairman, I move that the committee recess or adjourn at this time until 2 o'clock this afternoon.

Mr. McCORMACK. If the gentleman will withhold his motion for a moment, I should like to ask Mr. Parker one more question. There has always been an inequality in the matter of these taxes. The point I have in mind may be only a minor point, but it has always appealed to me and to other people.

Take the case of a farmer. He makes an income-tax return. He does not include as part of his income the rent that he would have had to pay for home purposes, nor does he include the value of the produce that he grows on his farm and consumes.

Mr. PARKER. You mean he does not deduct the rent?

Mr. McCORMACK. Is that included as an item?

Mr. PARKER. Of the expense of his business?

Mr. McCORMACK. Suppose he owns his farm.

Mr. PARKER. I do not understand where the rent comes from.

Mr. McCORMACK. He owns his own farm.

Mr. PARKER. Yes, sir.

Mr. McCORMACK. Contrast that with the case of an industrial worker. Why should not the people who own their own premises and use it for their business be compelled to include the value of that property as rental, in their income.

Mr. PARKER. I do not think I quite get the point. Of course, a farmer can include depreciation on his farm buildings, and so forth. That depreciation is supposed to return his investment tax free.

Mr. McCORMACK. In making his income-tax return, does he give consideration to what would be a fair rental for his premises?

Mr. PARKER. You mean include that in his income?

Mr. McCORMACK. Yes.

Mr. PARKER. No, sir.

Mr. McCORMACK. Does he also include what would be a fair amount for what he otherwise would have to expend for produce, which in his case he grows on his farm and uses for his own personal or family uses?

Mr. PARKER. I am not certain that I get your point. In Great Britain, if a man owns a house he has to return in his income the fair rental value of that house and pay the tax on that amount, which puts him in the same position as a man who pays rent and does not get any deduction.

Mr. McCORMACK. You are talking about the property tax?

Mr. PARKER. No, sir; I am talking about the income tax, for income-tax purposes.

Mr. McCORMACK. I am a tenant and I pay rent. Of course, I cannot deduct that in making my income tax return, can I?

Mr. PARKER. Not in respect to a personal dwelling. You could include it if you were a farmer in respect to a rented farm.

Mr. VINSON. You get a personal exemption. Is not that on the same theory?

Mr. McCORMACK. But the personal exemption applies to everyone. I get a personal exemption and everybody else gets a personal exemption. It is a uniform exemption.

Mr. VINSON. No; it is not uniform.

Mr. McCORMACK. It is uniform in classes. A single man gets an exemption of a thousand dollars and a married person \$2,500.

Mr. VINSON. And \$400 for each dependent.

Mr. McCORMACK. Yes; but it applies uniformly to the different classes. Of course, I am just inquiring for information. I do not expect that any proposal to change the situation would be passed, but I want to see what the inequality is there.

For instance, he does not include the value of the food grown on his farm that his family consumes.

Mr. PARKER. He includes the expenses of operating the farm, of course. If he raises 10,000 bushels of wheat and he uses 50 bushels, I do not believe he prorates the expense of producing that 50 bushels of wheat so as to reduce his income-tax deductions.

Mr. McCORMACK. I was just curious to know what the situation was. I will not press that any further.

Mr. CROWTHER. Mr. Chairman, before we adjourn, I would like to ask a question. In the work on revision, by the subcommittee under the chairmanship of the gentleman from Washington, Mr. Hill, during the last 2 or 3 years, very often the question has been brought up regarding the stepped-up tax on corporations. I have asked about this several times if the policy was sound as to income tax, why it was not invoked in the corporation tax.

I forget what the answer was that was given, or what the opposition was based on that was made at the time, to the application of this graduated tax to corporation income.

Will you state what the objection is to it?

Mr. PARKER. Well, the objection usually raised is that the net income of a corporation does not represent individual profits. It may be spread over many individuals.

For instance, if you and I form a corporation, and we put in \$10,000 apiece, or a total of \$20,000, and we make \$10,000 or 50 percent on our capital, under the graded corporation tax, on only \$10,000 of net income we would not pay a very high rate of tax.

Suppose we had a hundred people, instead of two people, and they put in \$10,000 apiece, or a million dollars. Suppose they make \$20,000 or 2 percent on their capital. But, having a \$20,000 income, you want to tax those people more individually than you and I are taxed, when we are making a 50 percent profit. You want to tax that cooperative effort of a hundred people more than you would the two, merely because of the size of the net income of the corporation.

That is the main objection to it.

Mr. KNUTSON. Mr. Chairman, may I ask a question? Let us say that A, B, and C are stockholders in a corporation. A has 5 shares; B has 100 shares; and C has 100,000 shares. They are all taxed at the same rate. Under the present proposal a corporation would be taxed 16 $\frac{3}{4}$ percent. Not only would the holder of one share be taxed 16 $\frac{3}{4}$ percent, but the man who owns 50,000 shares would be taxed at the same rate, and not at a higher rate.

Mr. PARKER. That is correct; they would all pay the same rate. Of course, our theory in the past has been that the corporation gets the money and pays a flat tax. The graduation in rate is taken care of on the distribution of that money to the stockholders.

In your case, of course, if the corporation made a distribution to the stockholders, the man who owned 100,000 shares would pay an enormous tax, whereas the man who owned 5 shares would not be in the surtax brackets at all.

That was considered in 1934 in the matter of eliminating loopholes in the tax laws. That is why, of course, the committee decided to make a drive on personal holding companies and also, under section 102, to encourage a certain amount of distribution of corporate profits, that was not necessary in the business, so that we would get our surtaxes.

If you wanted to make it absolutely consistent—that is the corporation tax with our tax on individuals—what you would do—but it could not be done administratively—theoretically, you would go into the corporation, see what they had made, and after accounting for the dividends distributed, you would figure up what the tax should be if the remaining income were distributed to each stockholder; you would find out the income of each stockholder and compute the tax and make the corporation pay it. But that could not be done. But if you wanted to follow it through theoretically, you would have to have some such system as that.

Mr. KNUTSON. Mr. Parker, the present tax of 13¾ percent is proving burdensome to a number of corporations. Would not the imposition of the 16¾-percent tax prove still more burdensome, and would it not prevent development of corporations who would want to take on more help and expand their activities? What danger would there be of such a condition being brought about under the proposed increase?

Mr. PARKER. After all, it may retard expansion, but I do not think it would prevent it. The high rate mentioned by the President, 16¾ percent, is not a particularly high rate when you take into consideration England's rate of 22½ percent.

Mr. VINSON. The President's message called for a lesser rate on smaller corporations. It is even less than 13¾ percent.

Mr. PARKER. Ninety-five percent of our corporations are relatively small corporations.

Mr. KNUTSON. It would seem to me that the first concern of this committee should be to do that which would expedite recovery.

Mr. CROWTHER. Does the sliding scale method obtain in any other countries, in England, for instance, on corporations?

Mr. PARKER. No; England has no graduated tax on corporations.

Mr. CROWTHER. They have a higher rate of tax than we?

Mr. PARKER. That is correct.

Mr. CROWTHER. Is it 20 or 25 percent?

Mr. PARKER. It is 22½ percent at present. It used to be 25 percent.

Mr. CROWTHER. That is the rate on all corporations?

Mr. PARKER. Yes, sir.

(The following estimates were submitted by the Treasury Department on request of Mr. Parker, acting pursuant to instructions of the committee:)

SUMMARY

I. GRADUATED INHERITANCE AND GIFT TAX SCHEDULES

A. Tables 1A, 1B, 2A, 2B, 3A, 3B, 4A, and 4B embody various alternative independent inheritance and gift tax rate schedules. The estimated increase in revenues from each is as follows:

	Millions		Millions
Table 1A.....	\$5. 0	Table 3A.....	\$60. 5
Table 1B.....	2. 3	Table 3B.....	17. 0
Table 2A.....	20. 3	Table 4A.....	93. 2
Table 2B.....	7. 0	Table 4B.....	25. 4

B. Tables 5 to 7 apply to all inheritances and gifts the same rate schedule as the individual income tax.

(a) If no exemptions are permitted, this schedule is estimated to yield \$489,000,000 in additional revenues (table 5).

(b) If the first \$50,000 of all inheritances and gifts were completely exempted, the estimated revenue would be reduced to \$209,000,000 (table 6).

(c) If a tax credit of \$9,700 were allowed every recipient, thereby freeing all inheritances and gifts of \$50,000 or under from all tax, and likewise reducing the tax on all larger amounts by \$9,700, the schedule is estimated to yield \$282,000,000 (table 7).

(d) If a tax credit of \$9,700 be allowed each recipient of inheritance or gift of \$100,000 or less, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, but not allowing this tax credit in connection with amounts larger than \$100,000, the estimated revenue is \$304,000,000.

C. Tables 8 to 10 apply to all inheritances and gifts the proposed individual income tax schedule contained in table 20.

(a) If no exemptions are permitted, this schedule is estimated to yield \$508,000,000 in additional revenues (table 8).

(b) If the first \$50,000 of all inheritances and gifts were completely exempted, the estimated revenue under this schedule would be reduced to \$223,000,000 (table 9).

(c) If a tax credit of \$9,700 be allowed every recipient, thereby freeing all inheritances and gifts of \$50,000 or under from all tax, and likewise reducing the tax on all larger amounts by \$9,700, the schedule is estimated to yield \$300,000,000 (table 10).

(d) If a tax credit of \$9,700 be allowed each recipient of inheritance or gift of \$100,000 or less, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, but not allowing this tax credit in connection with amounts larger than \$100,000, the estimated revenue is \$323,000,000.

D. Tables 11 and 12 embody the proposal of taxing the combined inheritance or gift and statutory net income at present income tax rates, with a deduction of the tax paid on the statutory net income. Thus, in effect, all inheritances and gifts received by an individual in any year would be treated as ordinary income and subjected to the individual income-tax rates. The effective rate of the inheritance or gift tax would therefore vary directly with the accumulated wealth and earning power of the recipient, as measured by his income.

The average income of several years, rather than the income of a single year, may be used.

(a) If no exemptions are provided for, such a tax is estimated to yield \$678,000,000 in additional revenues (table 11).

(b) If a tax credit of \$9,700 be allowed for each recipient, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, and likewise reducing the tax on all larger amounts by \$9,700, this proposal is estimated to yield \$472,000,000 in revenue (table 12).

(c) If a tax credit of \$9,700 be allowed each recipient of inheritance or gift of \$100,000 or less, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, but not allowing this tax credit in connection with amounts larger than \$100,000, the estimated revenue is \$503,000,000.

E. Tables 13 and 14 embody the proposal that all inheritances and gifts received by any individual in any year shall, in effect, be treated as ordinary income and subjected to the proposed new individual income tax rates in table 20. The tax on the inheritance or gift proper would be the amount of tax on the combined inheritance or gift and statutory net income, as determined by the rates incorporated in table 20, less the tax previously paid on the statutory net income at the proposed new rates. Thus, the effective rate of the inheritance or gift tax would vary directly with the accumulated wealth and earning power of the recipient, as measured by his income.

The average income of several years, rather than the income of a single year, may be used.

(a) If no exemptions are provided for, such a tax is estimated to yield \$728,000,000 in additional revenues (table 13).

(b) If a tax credit of \$9,700 be allowed for each recipient, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, and likewise reducing the tax on all larger amounts by \$9,700, this proposal is estimated to yield \$516,000,000 in revenue (table 14).

(c) If a tax credit of \$9,700 be allowed each recipient of inheritance or gift of \$100,000 or less, thereby freeing all inheritances and gifts of \$50,000 or less from any tax, but not allowing this tax credit in connection with amounts larger than \$100,000, the estimated revenue is \$547,000,000.

II. SCHEDULES FOR INCREASED BRACKET RATES ON VERY LARGE INDIVIDUAL INCOMES

Tables 15 to 20 contain a variety of arrangements for increased bracket rates on very large individual incomes. The estimated increase in revenues from each of these schedules is as follows:

	Millions		Millions
Table 15.....	\$5. 1	Table 18.....	\$6. 9
Table 16.....	22. 1	Table 19.....	20. 4
Table 17.....	28. 9	Table 20.....	32. 6

III. CORPORATION INCOME-TAX RATE SCHEDULES GRADUATED BY SIZE OF CORPORATION INCOME

Tables 21 to 23 contain alternative rate schedules designed to graduate the rate of corporation income tax according to the size of corporation incomes. The estimated increase in revenues from each is as follows:

	Millions		Millions
Table 21.....	\$66. 9	Table 23.....	\$100. 6
Table 22.....	102. 2		

IV. REDUCTION OF TAX EXEMPTION FOR DIVIDENDS RECEIVED BY CORPORATIONS

If dividends received by corporations were exempted from the corporation income tax to the extent of only 85 percent of such dividends, instead of 100 percent, as is now the case, the estimated increase in revenue is \$39,700,000.

TABLE 1A.—*Bracket rates on inheritances, amounts of tax, and effective rates*

[Estimated revenue, \$5,000,000]

Bracket	Rate	Tax ¹	Percentage of tax to inheritance ¹
	<i>Percent</i>		
Up to \$300,000.....	(²)	(²)	(²)
\$300,000-\$500,000.....	4	\$8, 000	1. 60
\$500,000-\$750,000.....	7	25, 500	3. 40
\$750,000-\$1,000,000.....	10	50, 500	5. 05
\$1,000,000-\$2,000,000.....	20	250, 500	12. 53
\$2,000,000-\$3,000,000.....	30	550, 500	18. 35
\$3,000,000-\$4,000,000.....	40	950, 500	23. 76
\$4,000,000-\$5,000,000.....	50	1, 450, 500	29. 01
\$5,000,000-\$7,000,000.....	60	2, 650, 500	37. 86
\$7,000,000-\$10,000,000.....	70	4, 750, 500	47. 51
Over \$10,000,000.....	75		

¹ Computed on upper limit of brackets.

² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 1B.—*Bracket rates on gifts, amounts of tax, and effective rates*

[Estimated revenue, \$2,300,000]

Bracket	Rate	Tax ¹	Percentage of tax to gift ¹
	<i>Percent</i>		
Up to \$300,000.....	(²)	(²)	(²)
\$300,000-\$500,000.....	3	\$6, 000	1. 20
\$500,000-\$750,000.....	5	18, 500	2. 47
\$750,000-\$1,000,000.....	7	36, 000	3. 60
\$1,000,000-\$2,000,000.....	15	186, 000	9. 30
\$2,000,000-\$3,000,000.....	23	416, 000	13. 87
\$3,000,000-\$4,000,000.....	30	716, 000	17. 90
\$4,000,000-\$5,000,000.....	38	1, 096, 000	21. 92
\$5,000,000-\$7,000,000.....	45	1, 996, 000	28. 51
\$7,000,000-\$10,000,000.....	53	3, 586, 000	35. 86
Over \$10,000,000.....	60		

¹ Computed on upper limit of brackets.

² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 2A.—*Bracket rates on inheritances, amounts of tax, and effective rates*

[Estimated revenue \$203,000,000]

Bracket	Rate	Tax ¹	Percentage of tax to inheritance ¹
	<i>Percent</i>		
	(2)	(2)	(2)
Up to \$100,000.....			
\$100,000-\$200,000.....	4	\$4,000	2.00
\$200,000-\$400,000.....	8	20,000	5.00
\$400,000-\$750,000.....	14	69,000	9.20
\$750,000-\$1,000,000.....	20	119,000	11.90
\$1,000,000-\$2,000,000.....	30	419,000	20.95
\$2,000,000-\$3,000,000.....	40	519,000	27.50
\$3,000,000-\$5,000,000.....	50	1,819,000	36.38
\$5,000,000-\$7,000,000.....	60	3,019,000	43.13
\$7,000,000-\$10,000,000.....	70	5,119,000	51.19
Over \$10,000,000.....	75		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 2B.—*Bracket rates on gifts, amounts of tax, and effective rates*

[Estimated revenue, \$7,000,000]

Bracket	Rate	Tax ¹	Percentage of tax to gift ¹
	<i>Percent</i>		
	(2)	(2)	(2)
Up to \$100,000.....			
\$100,000-\$200,000.....	3	\$3,000	1.50
\$200,000-\$400,000.....	6	15,000	3.75
\$400,000-\$750,000.....	11	53,500	7.13
\$750,000-\$1,000,000.....	15	91,000	9.10
\$1,000,000-\$2,000,000.....	23	321,000	16.05
\$2,000,000-\$3,000,000.....	30	621,000	20.70
\$3,000,000-\$5,000,000.....	38	1,381,000	27.62
\$5,000,000-\$7,000,000.....	45	2,281,000	32.59
\$7,000,000-\$10,000,000.....	53	3,871,000	38.71
Over \$10,000,000.....	60		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 3A.—*Bracket rates on inheritance, amounts of tax, and effective rates*

[Estimated revenue, \$60,500,000]

Bracket	Rate	Tax ¹	Percentage of tax to inheritance ¹
	<i>Percent</i>		
	(2)	(2)	(2)
Up to \$50,000.....			
\$50,000-\$75,000.....	4	\$1,000	1.33
\$75,000-\$100,000.....	8	3,000	3.00
\$100,000-\$150,000.....	12	9,000	6.00
\$150,000-\$200,000.....	16	17,000	8.50
\$200,000-\$400,000.....	20	57,000	14.25
\$400,000-\$600,000.....	24	105,000	17.50
\$600,000-\$800,000.....	28	161,000	20.13
\$800,000-\$1,000,000.....	32	225,000	22.50
\$1,000,000-\$1,500,000.....	36	405,000	27.00
\$1,500,000-\$2,000,000.....	40	605,000	30.25
\$2,000,000-\$2,500,000.....	44	825,000	33.00
\$2,500,000-\$3,000,000.....	48	1,065,000	35.50
\$3,000,000-\$3,500,000.....	52	1,325,000	37.86
\$3,500,000-\$4,000,000.....	56	1,605,000	40.13
\$4,000,000-\$4,500,000.....	60	1,905,000	42.33
\$4,500,000-\$5,000,000.....	64	2,225,000	44.50
\$5,000,000-\$6,000,000.....	68	2,905,000	48.42
\$6,000,000-\$8,000,000.....	72	4,345,000	54.31
Over \$8,000,000.....	75		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 3B.—*Bracket rates on gifts, amounts of tax, and effective rates*

[Estimated revenue \$17,000,000]

Bracket	Rate	Tax ¹	Percentage of tax to gift ¹
	<i>Percent</i>		
Up to \$50,000.....	(²)	(²)	(²)
\$50,000-\$75,000.....	3	\$750	1.00
\$75,000-\$100,000.....	6	2,250	2.25
\$100,000-\$150,000.....	9	6,750	4.50
\$150,000-\$200,000.....	12	12,750	6.38
\$200,000-\$400,000.....	15	42,750	10.69
\$400,000-\$600,000.....	18	78,750	13.13
\$600,000-\$800,000.....	21	120,750	15.09
\$800,000-\$1,000,000.....	24	168,750	16.88
\$1,000,000-\$1,500,000.....	27	303,750	20.25
\$1,500,000-\$2,000,000.....	30	453,750	22.69
\$2,000,000-\$2,500,000.....	33	618,750	24.75
\$2,500,000-\$3,000,000.....	36	798,750	26.63
\$3,000,000-\$3,500,000.....	39	993,750	28.39
\$3,500,000-\$4,000,000.....	42	1,203,750	30.09
\$4,000,000-\$4,500,000.....	45	1,428,750	31.75
\$4,500,000-\$5,000,000.....	48	1,668,750	33.38
\$5,000,000-\$6,000,000.....	51	2,178,750	36.31
\$6,000,000-\$8,000,000.....	54	3,258,750	40.73
Over \$8,000,000.....	57		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 4A.—*Bracket rates on inheritances, amounts of tax, and effective rates*

[Estimated revenue, \$93,200,000]

Bracket	Rate	Tax ¹	Percentage of tax to inheritance ¹
	<i>Percent</i>		
Up to \$50,000.....	(²)	(²)	(²)
\$50,000-\$60,000.....	4	\$400	0.67
\$60,000-\$70,000.....	8	1,200	1.71
\$70,000-\$80,000.....	12	2,400	3.00
\$80,000-\$100,000.....	16	5,600	5.60
\$100,000-\$150,000.....	20	15,600	10.40
\$150,000-\$200,000.....	24	27,600	13.80
\$200,000-\$300,000.....	28	55,600	18.53
\$300,000-\$500,000.....	32	119,600	23.92
\$500,000-\$750,000.....	36	209,600	27.95
\$750,000-\$1,000,000.....	40	309,600	30.96
\$1,000,000-\$1,500,000.....	44	529,600	35.31
\$1,500,000-\$2,000,000.....	48	769,600	38.48
\$2,000,000-\$3,000,000.....	52	1,289,600	42.99
\$3,000,000-\$4,000,000.....	56	1,849,600	46.24
\$4,000,000-\$5,000,000.....	60	2,449,600	48.99
\$5,000,000-\$6,000,000.....	64	3,089,600	51.49
\$6,000,000-\$8,000,000.....	68	4,449,600	55.62
\$8,000,000-\$10,000,000.....	72	5,889,600	58.90
Over \$10,000,000.....	75		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 4B.—*Bracket rates on gifts, amounts of tax, and effective rates*

[Estimated revenue, \$25,400,000]

Bracket	Rate	Tax ¹	Percentage of tax to gift ¹
	Percent (²)	(²)	(²)
Up to \$50,000.....			
\$50,000-\$60,000.....	3	\$300	0.50
\$60,000-\$70,000.....	6	900	1.29
\$70,000-\$80,000.....	9	1,800	2.25
\$80,000-\$100,000.....	12	4,200	4.20
\$100,000-\$150,000.....	15	11,700	7.80
\$150,000-\$200,000.....	18	20,700	10.35
\$200,000-\$300,000.....	21	41,700	13.90
\$300,000-\$500,000.....	24	89,700	17.94
\$500,000-\$750,000.....	27	157,200	20.96
\$750,000-\$1,000,000.....	30	232,200	23.22
\$1,000,000-\$1,500,000.....	33	397,200	26.48
\$1,500,000-\$2,000,000.....	36	577,200	28.86
\$2,000,000-\$3,000,000.....	39	967,200	32.24
\$3,000,000-\$4,000,000.....	42	1,387,200	34.68
\$4,000,000-\$5,000,000.....	45	1,837,200	36.74
\$5,000,000-\$6,000,000.....	48	2,317,200	38.62
\$6,000,000-\$8,000,000.....	51	3,337,200	41.72
\$8,000,000-\$10,000,000.....	54	4,417,200	44.17
Over \$10,000,000.....	57		

¹ Computed on upper limit of brackets.² No tax.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 5.—*Inheritance and gift tax at same rates as present income tax—no exceptions*

[Estimated revenue \$489,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000.....	\$700	7.00
\$50,000.....	9,700	19.40
\$100,000.....	32,000	32.00
\$300,000.....	146,500	48.83
\$500,000.....	265,500	53.10
\$1,000,000.....	573,000	57.30
\$5,000,000.....	3,093,000	61.86
\$10,000,000.....	6,243,000	62.43

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 6.—*Inheritance and gift tax at same rates as present income tax—first \$50,000 of all amounts completely exempted*

[Estimated revenue \$209,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000.....	0	
\$50,000.....	0	
\$100,000.....	\$9,700	9.70
\$300,000.....	117,500	39.17
\$500,000.....	235,500	47.10
\$1,000,000.....	542,000	54.20
\$5,000,000.....	3,061,500	61.23
\$10,000,000.....	6,211,500	62.12

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 7.—*Inheritance and gift tax at same rates as present income tax—\$9,700 tax credit allowed every recipient*

[Estimated revenue \$282,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000	0	-----
\$50,000	0	-----
\$100,000	\$22,300	22.30
\$300,000	136,800	45.60
\$500,000	255,800	51.16
\$1,000,000	563,300	56.33
\$5,000,000	3,083,300	61.67
\$10,000,000	6,233,300	62.33

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 8.—*Inheritance and gift tax at same rates as those indicated for the income tax in table 20—no exemption*

[Estimated revenue \$508,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000	\$700	7.00
\$50,000	9,700	19.40
\$100,000	32,000	32.00
\$300,000	155,000	51.67
\$500,000	288,000	57.60
\$1,000,000	650,500	65.05
\$5,000,000	3,910,500	78.21
\$10,000,000	8,435,500	84.36

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 9.—*Inheritance and gift tax at same rates as those indicated for the income tax in table 20—first \$50,000 of all amounts completely exempted*

[Estimated revenue \$223,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000	0	-----
\$50,000	0	-----
\$100,000	\$9,700	9.70
\$300,000	123,500	41.17
\$500,000	254,000	50.80
\$1,000,000	613,500	61.35
\$5,000,000	3,867,500	77.35
\$10,000,000	8,389,500	83.90

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 10.—*Inheritance and gift tax at same rates as those indicated for the income tax in table 20—tax credit allowed every recipient*

[Estimated revenue \$300,000,000]

Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
\$10,000	0	-----
\$50,000	0	-----
\$100,000	\$22,300	22.30
\$300,000	145,300	48.43
\$500,000	278,300	55.66
\$1,000,000	640,800	64.08
\$5,000,000	3,900,800	78.02
\$10,000,000	8,425,800	84.26

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 11.—*Present income-tax rates applied to combined inheritance or gift and statutory net income, with deductions of tax paid on statutory net income—no exemptions*

[Estimated revenue, \$678,000,000]

	Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
Individual with no statutory net income-----	\$5, 000	\$240	4.8
	10, 000	700	7.0
	50, 000	9, 700	19.4
	100, 000	32, 000	32.0
	500, 000	265, 500	53.1
	1, 000, 000	573, 000	57.3
	5, 000, 000	3, 093, 000	61.9
Individual with statutory net income of \$5,000-----	10, 000, 000	6, 243, 000	62.4
	5, 000	460	9.2
	10, 000	1, 050	10.5
	50, 000	11, 160	22.3
	100, 000	34, 560	34.6
	500, 000	268, 310	53.7
	1, 000, 000	575, 910	57.6
Individual with statutory net income of \$10,000-----	5, 000, 000	3, 095, 910	61.9
	10, 000, 000	6, 245, 910	62.5
	5, 000	590	11.8
	10, 000	1, 360	13.6
	50, 000	12, 520	25.0
	100, 000	36, 900	36.9
	500, 000	270, 900	54.2
Individual with statutory net income of \$50,000-----	1, 000, 000	578, 600	57.9
	5, 000, 000	3, 098, 600	62.0
	10, 000, 000	6, 248, 600	62.5
	5, 000	1, 700	34.0
	10, 000	3, 400	34.0
	50, 000	22, 300	44.6
	100, 000	50, 300	50.3
Individual with statutory net income of \$100,000-----	500, 000	286, 300	57.3
	1, 000, 000	594, 800	59.5
	5, 000, 000	3, 114, 800	62.3
	10, 000, 000	6, 264, 800	62.6
	5, 000	2, 800	56.0
	10, 000	5, 600	56.0
	50, 000	28, 000	56.0
Individual with statutory net income of \$500,000-----	100, 000	56, 500	56.5
	500, 000	294, 500	58.9
	1, 000, 000	604, 000	60.4
	5, 000, 000	3, 124, 000	62.5
	10, 000, 000	6, 274, 000	62.7
	5, 000	3, 050	61.0
	10, 000	6, 100	61.0
Individual with statutory net income of \$1,000,000-----	50, 000	30, 500	61.0
	100, 000	61, 000	61.0
	500, 000	307, 500	61.5
	1, 000, 000	622, 500	62.3
	5, 000, 000	3, 142, 500	62.9
	10, 000, 000	6, 292, 500	62.9
	5, 000	3, 150	63.0
Individual with statutory net income of \$5,000,000-----	10, 000	6, 300	63.0
	50, 000	31, 500	63.0
	100, 000	63, 000	63.0
	500, 000	315, 000	63.0
	1, 000, 000	630, 000	63.0
	5, 000, 000	3, 150, 000	63.0
	10, 000, 000	6, 300, 000	63.0
Individual with statutory net income of \$10,000,000-----	5, 000	3, 150	63.0
	10, 000	6, 300	63.0
	50, 000	31, 500	63.0
	100, 000	63, 000	63.0
	500, 000	315, 000	63.0
	1, 000, 000	630, 000	63.0
	5, 000, 000	3, 150, 000	63.0
	10, 000, 000	6, 300, 000	63.0

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 12.—*Present income-tax rates applied to combined inheritance or gift and statutory net income, with deduction of tax paid on statutory net income—\$9,700 tax credit allowed every recipient*

[Estimated revenue \$472,000,000]

	Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
Individual with no statutory net income-----	\$5,000	0	-----
	10,000	0	-----
	50,000	0	-----
	100,000	\$22,300	22.3
	500,000	255,800	51.2
	1,000,000	563,300	56.3
	5,000,000	3,083,300	61.7
Individual with statutory net income of \$5,000-----	10,000,000	6,233,300	62.3
	5,000	0	-----
	10,000	0	-----
	50,000	1,460	2.9
	100,000	24,860	24.9
	500,000	258,610	51.7
	1,000,000	566,210	56.6
Individual with statutory net income of \$10,000-----	5,000,000	3,086,210	61.7
	10,000,000	6,236,210	62.4
	5,000	0	-----
	10,000	0	-----
	50,000	2,820	5.6
	100,000	27,200	27.2
	500,000	261,200	52.2
Individual with statutory net income of \$50,000-----	1,000,000	568,900	56.9
	5,000,000	3,088,900	61.8
	10,000,000	6,238,900	62.4
	5,000	0	-----
	10,000	0	-----
	50,000	12,600	25.2
	100,000	40,600	40.6
Individual with statutory net income of \$100,000-----	500,000	276,500	55.3
	1,000,000	585,100	58.5
	5,000,000	3,105,100	62.1
	10,000,000	6,255,100	62.6
	5,000	0	-----
	10,000	0	-----
	50,000	18,300	36.6
Individual with statutory net income of \$500,000-----	100,000	46,800	46.8
	500,000	284,800	57.0
	1,000,000	594,300	59.4
	5,000,000	3,114,300	62.3
	10,000,000	6,264,300	62.6
	5,000	0	-----
	10,000	0	-----
Individual with statutory net income of \$1,000,000-----	50,000	20,800	41.6
	100,000	51,300	51.3
	500,000	297,800	59.6
	1,000,000	612,800	61.3
	5,000,000	3,132,800	62.7
	10,000,000	6,282,800	62.8
	5,000	0	-----
Individual with statutory net income of \$5,000,000-----	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
Individual with statutory net income of \$10,000,000-----	5,000	0	-----
	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
Individual with statutory net income of \$5,000,000-----	10,000,000	6,290,300	62.9
	5,000	0	-----
	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
Individual with statutory net income of \$10,000,000-----	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
	5,000	0	-----
	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
Individual with statutory net income of \$5,000,000-----	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
	5,000	0	-----
	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
Individual with statutory net income of \$10,000,000-----	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
	5,000	0	-----
	10,000	0	-----
	50,000	21,800	43.6
Individual with statutory net income of \$5,000,000-----	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
	5,000	0	-----
	10,000	0	-----
Individual with statutory net income of \$10,000,000-----	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9
	5,000	0	-----
Individual with statutory net income of \$5,000,000-----	10,000	0	-----
	50,000	21,800	43.6
	100,000	53,300	53.3
	500,000	305,300	61.1
	1,000,000	620,300	62.0
	5,000,000	3,140,300	62.8
	10,000,000	6,290,300	62.9

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 13.—*Income tax rates contained in table 20 applied to combined inheritance or gift and statutory net income, with deduction of tax paid on statutory net income—no exemption*

[Estimated revenue \$728,000,000]

	Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
Individual with no statutory net income.....	\$5,000	\$240	4.8
	10,000	700	7.0
	50,000	9,700	19.4
	100,000	32,000	32.0
	500,000	288,000	57.6
	1,000,000	650,500	65.1
	5,000,000	3,910,500	78.2
Individual with statutory net income of \$5,000.....	10,000,000	8,435,500	84.4
	5,000	460	9.2
	10,000	1,050	10.5
	50,000	11,160	22.3
	100,000	34,760	34.8
	500,000	291,310	58.3
	1,000,000	654,110	65.4
Individual with statutory net income of \$10,000.....	5,000,000	3,914,710	78.3
	10,000,000	8,439,960	84.4
	5,000	590	11.8
	10,000	1,360	13.6
	50,000	12,520	25.0
	100,000	37,300	37.3
	500,000	294,400	58.9
Individual with statutory net income of \$50,000.....	1,000,000	657,500	65.8
	5,000,000	3,918,700	78.4
	10,000,000	8,444,200	84.4
	5,000	1,700	34.0
	10,000	3,520	35.2
	50,000	22,300	44.6
	100,000	52,300	52.3
Individual with statutory net income of \$100,000.....	500,000	313,800	62.8
	1,000,000	679,300	67.9
	5,000,000	3,945,300	78.9
	10,000,000	8,472,800	84.7
	5,000	3,000	60.0
	10,000	6,000	60.0
	50,000	30,000	60.0
Individual with statutory net income of \$500,000.....	100,000	60,500	60.5
	500,000	327,000	65.4
	1,000,000	695,500	69.6
	5,000,000	3,967,500	79.4
	10,000,000	8,497,500	85.0
	5,000	3,550	71.0
	10,000	7,100	71.0
Individual with statutory net income of \$1,000,000.....	50,000	35,500	71.0
	100,000	71,000	71.0
	500,000	362,500	72.5
	1,000,000	747,500	74.8
	5,000,000	4,067,500	81.4
	10,000,000	8,617,500	86.2
	5,000	3,850	77.0
Individual with statutory net income of \$5,000,000.....	10,000	7,700	77.0
	50,000	38,500	77.0
	100,000	77,000	77.0
	500,000	385,000	77.0
	1,000,000	770,000	77.0
	5,000,000	4,150,000	83.0
	10,000,000	8,725,000	87.3
Individual with statutory net income of \$10,000,000.....	5,000	4,450	89.0
	10,000	8,900	89.0
	50,000	44,500	89.0
	100,000	89,000	89.0
	500,000	445,000	89.0
	1,000,000	890,000	89.0
	5,000,000	4,525,000	90.5
Individual with statutory net income of \$50,000,000.....	10,000,000	9,225,000	92.3
	5,000	4,700	94.0
	10,000	9,400	94.0
	50,000	47,000	94.0
	100,000	94,000	94.0
	500,000	470,000	94.0
	1,000,000	940,000	94.0
Individual with statutory net income of \$1,000,000,000.....	5,000,000	4,700,000	94.0
	10,000,000	9,400,000	94.0

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 14.—*Income tax rates contained in table 20 on combined inheritance or gift and statutory net income with deduction of tax paid on statutory net income—\$9,700 tax credit allowed every recipient*

[Estimated revenue \$516,000,000]

	Amount of inheritance or gift	Amount of tax	Percentage of tax to inheritance or gift
Individual with no statutory net income-----	\$5,000	0	-----
	10,000	0	-----
	50,000	0	-----
	100,000	\$22,300	22.3
	500,000	278,300	55.7
	1,000,000	640,800	64.1
	5,000,000	3,900,800	78.0
Individual with statutory net income of \$5,000-----	10,000,000	8,425,800	84.3
	5,000	0	-----
	10,000	0	-----
	50,000	1,460	2.9
	100,000	25,060	25.1
	500,000	281,610	56.3
	1,000,000	644,410	64.4
Individual with statutory net income of \$10,000-----	5,000,000	3,905,010	78.1
	10,000,000	8,430,260	84.3
	5,000	0	-----
	10,000	0	-----
	50,000	2,820	5.6
	100,000	27,600	27.6
	500,000	284,700	56.9
Individual with statutory net income of \$50,000-----	1,000,000	647,800	64.8
	5,000,000	3,909,000	78.2
	10,000,000	8,434,500	84.3
	5,000	0	-----
	10,000	0	-----
	50,000	12,600	25.2
	100,000	42,600	42.6
Individual with statutory net income of \$100,000-----	500,000	304,100	60.8
	1,000,000	669,600	67.0
	5,000,000	3,935,600	78.7
	10,000,000	8,463,100	84.6
	5,000	0	-----
	10,000	0	-----
	50,000	20,300	40.6
Individual with statutory net income of \$500,000-----	100,000	50,800	50.8
	500,000	317,300	63.5
	1,000,000	685,800	68.6
	5,000,000	3,957,800	79.2
	10,000,000	8,487,800	84.9
	5,000	0	-----
	10,000	0	-----
Individual with statutory net income of \$1,000,000-----	50,000	25,800	51.6
	100,000	61,300	61.3
	500,000	352,800	70.6
	1,000,000	737,800	73.8
	5,000,000	4,057,800	81.2
	10,000,000	8,607,800	86.1
	5,000	0	-----
Individual with statutory net income of \$5,000,000-----	10,000	0	-----
	50,000	28,800	57.6
	100,000	67,300	67.3
	500,000	375,300	75.1
	1,000,000	760,300	76.0
	5,000,000	4,140,300	82.8
	10,000,000	8,715,300	87.2
Individual with statutory net income of \$10,000,000-----	5,000	0	-----
	10,000	0	-----
	50,000	34,800	69.6
	100,000	79,300	79.3
	500,000	435,300	87.1
	1,000,000	880,300	88.0
	5,000,000	4,515,300	90.3
Individual with statutory net income of \$5,000,000-----	10,000,000	9,215,300	92.2
	5,000	0	-----
	10,000	0	-----
	50,000	37,300	74.6
	100,000	84,300	84.3
	500,000	460,300	92.1
	1,000,000	930,300	93.0
Individual with statutory net income of \$10,000,000-----	5,000,000	4,690,300	93.8
	10,000,000	9,390,300	93.9

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 15.—*Surtaxes on individual incomes exceeding \$1,000,000*

[Estimated increase in revenue, \$5,100,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
\$1,000,000 to \$1,500,000.....	60	64	\$893,000	59.53
\$1,500,000 to \$2,000,000.....	63	67	1,228,000	61.40
\$2,000,000 to \$3,000,000.....	66	70	1,928,000	64.27
\$3,000,000 to \$5,000,000.....	70	74	3,408,000	68.16
\$5,000,000 to \$10,000,000.....	75	79	7,358,000	73.55
Over \$10,000,000.....	80	84	-----	-----

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 16.—*Surtaxes on individual incomes exceeding \$150,000*

[Estimated increase in revenue, \$22,100,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
\$150,000 to \$200,000.....	54	58	\$89,000	44.50
\$200,000 to \$250,000.....	56	60	119,000	47.60
\$250,000 to \$300,000.....	58	62	150,000	50.00
\$300,000 to \$350,000.....	60	64	182,000	52.00
\$350,000 to \$400,000.....	62	66	215,000	53.75
\$400,000 to \$500,000.....	64	68	283,000	56.60
\$500,000 to \$750,000.....	66	70	458,000	61.07
\$750,000 to \$1,000,000.....	68	72	638,000	63.80
\$1,000,000 to \$2,000,000.....	70	74	1,378,000	68.90
\$2,000,000 to \$3,000,000.....	72	76	2,138,000	71.27
\$3,000,000 to \$4,000,000.....	74	78	2,918,000	72.95
\$4,000,000 to \$5,000,000.....	76	80	3,718,000	74.36
\$5,000,000 to \$7,500,000.....	78	82	5,768,000	76.91
Over \$7,500,000.....	80	84	-----	-----

¹ Computed on upper limits of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 17.—*Surtaxes on individual incomes exceeding \$100,000*

[Estimated increase in revenue, \$28,900,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
\$100,000 to \$200,000.....	55	59	\$91,000	45.50
\$200,000 to \$400,000.....	60	64	219,000	54.75
\$400,000 to \$700,000.....	65	69	426,000	60.86
\$700,000 to \$1,000,000.....	70	74	648,000	64.80
\$1,000,000 to \$2,000,000.....	72	76	1,408,000	70.40
\$2,000,000 to \$3,000,000.....	74	78	2,188,000	72.93
\$3,000,000 to \$5,000,000.....	76	80	3,788,000	75.76
\$5,000,000 to \$7,500,000.....	78	82	5,838,000	77.84
Over \$7,500,000.....	80	84	-----	-----

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 18.—*Surtaxes on individual incomes exceeding \$500,000*

[Estimated increase in revenue \$6,900,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage on tax to total taxable income ¹
\$500,000 to \$600,000.....	57	61	\$326,500	54.42
\$600,000 to \$700,000.....	58	62	388,500	55.50
\$700,000 to \$800,000.....	59	63	451,500	56.44
\$800,000 to \$900,000.....	60	64	515,500	57.28
\$900,000 to \$1,000,000.....	61	65	580,500	58.65
\$1,000,000 to \$1,500,000.....	63	67	915,500	61.03
\$1,500,000 to \$2,000,000.....	65	69	1,260,500	63.03
\$2,000,000 to \$3,000,000.....	67	71	1,970,500	65.68
\$3,000,000 to \$4,000,000.....	69	73	2,700,500	67.51
\$4,000,000 to \$5,000,000.....	71	75	3,450,500	69.01
\$5,000,000 to \$6,000,000.....	73	77	4,220,500	70.34
\$6,000,000 to \$7,000,000.....	75	79	5,010,500	71.58
\$7,000,000 to \$8,000,000.....	77	81	5,820,500	72.76
\$8,000,000 to \$10,000,000.....	79	83	7,480,500	74.81
Over \$10,000,000.....	80	84		

¹ Computed on upper limit of brackets.

Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 19.—*Surtax on individual incomes exceeding \$150,000*

[Estimated increase in revenue \$20,400,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
\$150,000 to \$200,000.....	54	58	\$89,000	44.50
\$200,000 to \$250,000.....	56	60	119,000	47.00
\$250,000 to \$300,000.....	58	62	150,000	50.00
\$300,000 to \$350,000.....	60	64	182,000	52.00
\$350,000 to \$400,000.....	62	66	215,000	53.75
\$400,000 to \$500,000.....	64	68	283,000	56.60
\$500,000 to \$750,000.....	66	70	458,000	61.07
\$750,000 to \$1,000,000.....	68	72	638,000	63.80
\$1,000,000 to \$2,000,000.....	69	73	1,368,000	68.40
\$2,000,000 to \$3,000,000.....	70	74	2,108,000	70.27
\$3,000,000 to \$4,000,000.....	71	75	2,858,000	71.45
\$4,000,000 to \$5,000,000.....	72	76	3,618,000	72.36
\$5,000,000 to \$7,500,000.....	73	77	5,543,000	73.91
\$7,500,000 to \$10,000,000.....	74	78	7,493,000	74.93
Over \$10,000,000.....	75	79		

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 20.—*Surtax on individual incomes exceeding \$100,000*

[Estimated increase in revenues \$32,606,000]

Surtax bracket	Surtax (percent)	Combined normal and surtax (percent)	Total tax ¹	Percentage of tax to total taxable income ¹
\$100,000 to \$150,000.....	56	60	\$62,000	41.33
\$150,000 to \$200,000.....	57	61	92,500	46.25
\$200,000 to \$250,000.....	58	62	123,500	49.40
\$250,000 to \$300,000.....	59	63	155,000	51.67
\$300,000 to \$350,000.....	60	64	187,000	53.43
\$350,000 to \$400,000.....	62	66	220,000	55.00
\$400,000 to \$500,000.....	64	68	288,000	57.60
\$500,000 to \$750,000.....	67	71	465,500	62.07
\$750,000 to \$1,000,000.....	70	71	650,500	65.05
\$1,000,000 to \$2,000,000.....	73	77	1,420,500	71.03
\$2,000,000 to \$3,000,000.....	76	80	2,220,500	74.02
\$3,000,000 to \$4,000,000.....	79	83	3,050,500	76.26
\$4,000,000 to \$5,000,000.....	82	86	3,910,500	78.21
\$5,000,000 to \$7,500,000.....	85	89	6,135,500	81.81
\$7,500,000 to \$10,000,000.....	88	92	8,435,500	84.36
Over \$10,000,000.....	90	94		

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 21.—*Graduated tax on corporation income*

[Estimated increase in revenue \$66,900,000]

Income bracket	Rate (percent)	Total tax ¹	Percentage of tax to total taxable income ¹
Up to \$2,000.....	10	200	10.00
\$2,000 to \$5,000.....	11	530	10.60
\$5,000 to \$15,000.....	12	1,730	11.53
\$15,000 to \$40,000.....	13	4,980	12.45
\$40,000 to \$100,000.....	14	13,380	13.38
\$100,000 to \$300,000.....	15	43,380	14.46
\$300,000 to \$1,000,000.....	16	155,380	15.54
\$1,000,000 to \$20,000,000.....	17	3,385,380	16.93
Over \$20,000,000.....	17½		

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 22.—*Graduated tax on corporation income*

[Estimated increase in revenue \$102,200,000]

Income bracket	Rate (percent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
Up to \$2,000.....	10	\$200	10.00
\$2,000 to \$15,000.....	13½	1,955	13.03
\$15,000 to \$40,000.....	14	5,455	13.64
\$40,000 to \$100,000.....	15	14,455	14.46
\$100,000 to \$300,000.....	16	46,455	15.49
\$300,000 to \$1,000,000.....	17	165,455	16.55
Over \$1,000,000.....	17½		

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

TABLE 23.—*Graduated tax on corporation income*

[Estimated increase in revenue \$100,000,000]

Income bracket	Rate (per- cent)	Total tax ¹	Percentage of tax to total tax- able in- come ¹
Up to \$2,000.....	11	\$220	11.00
\$2,000 to \$5,000.....	12	580	11.60
\$5,000 to \$15,000.....	13	1,880	12.53
\$15,000 to \$40,000.....	14	5,380	13.45
\$40,000 to \$100,000.....	15	14,380	14.38
\$100,000 to \$300,000.....	16	46,380	15.46
\$300,000 to \$1,000,000.....	17	165,380	16.54
Over \$1,000,000.....	17 ¹ / ₂	-----	-----

¹ Computed on upper limit of brackets.

From Treasury Department, Division of Research and Statistics, July 6, 1935.

Mr. VINSON. Mr. Chairman, I move we adjourn.

The CHAIRMAN. The committee will stand adjourned until 10 o'clock tomorrow morning. The Chair announces that public hearings on this bill will be resumed at 10 o'clock tomorrow morning.

(Whereupon the committee adjourned to meet on Tuesday, July 9, 1935, at 10 a. m.)

PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

TUESDAY, JULY 9, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will please be in order. Mr. Parker will resume his statement.

STATEMENT OF L. H. PARKER, JOINT COMMITTEE ON INTERNAL REVENUE TAXATION—Resumed

Mr. KNUTSON. Mr. Parker, I note in the morning paper an article which starts out as follows:

A staggering series of new tax proposals, hitting the "little fellow", socking all investors, and seizing up to 94 percent of large inheritances, were revealed last night by the House Ways and Means Committee to be met by a blistering assault from "new deal" critics.

As I understand it, Mr. Parker, these are not proposals at all. You have seen the morning papers?

Mr. PARKER. Yes, Mr. Congressman.

Mr. KNUTSON. These are merely estimates furnished by the Treasury Department at your request, of receipts or probable receipts that various plans might produce. But none of these have been proposed by you or by the Treasury Department, or by any member of this committee, so far as you know?

Mr. PARKER. These schedules, Mr. Knutson——

Mr. McCORMACK. Is that the Washington Times?

Mr. KNUTSON. This is the Herald.

Mr. McCORMACK. Of course, the Washington Herald gave an absolutely inaccurate story. You know that as well as I. They absolutely misquoted.

The CHAIRMAN. Yesterday afternoon the Star, which is usually a very reliable paper, had a very misleading headline to the effect that Secretary Morgenthau favored imposing taxes to yield \$900,000,000. Of course, when you read further on into the body of the article, that impression is corrected.

Mr. KNUTSON. I think we should get the information out to the country at once, through the press, that these are not proposals. It is not proposed to levy in accordance with any of these schedules.

The CHAIRMAN. Will the gentleman yield?

Mr. KNUTSON. Yes.

The CHAIRMAN. How are you going to get that information to the country through that part of the press which carried such an article as you have just referred to, knowing at the same time that it was misleading? What is the redress of the committee in circumstances like that?

Mr. KNUTSON. I want to say in fairness to the man who wrote the article—and I do not know who wrote it—that he may not have had the information that these tables were merely furnished on request, as information.

Mr. VINSON. Will the gentleman yield to me?

Mr. KNUTSON. Yes.

The CHAIRMAN. They are mere estimates.

Mr. KNUTSON. Yes; they are mere estimates.

Mr. VINSON. I do not know about the newspaper story to which the chairman referred, the one in the Star, but my understanding is that, generally speaking, headlines are not written by the boys who write the articles.

Mr. KNUTSON. That is true.

Mr. VINSON. They have headline men who do that.

Mr. KNUTSON. And frequently they do not read the article that is headlined. I think I know who wrote this article, and I want to say in fairness to him that he is usually very accurate.

Mr. McCORMACK. Of course, the gentleman understands that I did not say he was not usually accurate. I simply said that the article was not accurate.

Mr. KNUTSON. I think, in order to reassure the country—and I am not taking this position in order to castigate any of the newspaper boys—the information should go out to the country at once that these are merely proposals—

The CHAIRMAN. You do not mean proposals.

Mr. KNUTSON. That is, they are not proposals, but are merely estimates of what various schedules might produce, if put into operation.

Mr. PARKER. These schedules were simply a result of studies made for the purpose of getting estimates so that when the committee was working in executive session they could adjust anywhere between these upper and lower limits and see what certain changes in rates would bring about.

I do not think that anybody would seriously propose the taxes shown on some of these schedules. Some of the schedules are reasonable. But some, I do not think anyone would ever seriously consider.

They are useful, however, as a matter of mathematics, you might say, in determining certain limits that it would be possible to reach in the inheritance tax and other tax fields.

Mr. KNUTSON. Mr. Chairman, would it be in order to have Mr. Parker take these proposed schedules up—and when I say proposed schedules I am using the headline in the Washington Herald—and explain them this morning?

Mr. VINSON. Do you not think that we could do that more effectively in executive session?

Mr. KNUTSON. Yes; very well. If that be the case, Mr. Chairman, I have no further questions to ask.

Mr. HILL. Mr. Parker, what happened, as I understand it, is that you, as the tax expert working with this committee, prepared certain brackets with certain suggested rates; taking each of the brackets within each of the tax subjects now in hearing, and submitted them to the Secretary of the Treasury with a request that they give you estimates of revenues that those rates in those brackets would produce.

Mr. PARKER. That is substantially correct, Mr. Hill.

Mr. HILL. Solely for the purpose of establishing a possible range within which the committee might, with profit, study the tax propositions now before it.

Mr. PARKER. That is correct, with one very slight modification. I prepared detailed schedules, brackets, and rates, in connection with the surtaxes—about five of those. I prepared three in respect to the graduated rates on corporations. I prepared, I think, four in respect to the inheritance tax and gift tax. Then I made one added request on the Treasury, a little more general in nature, and asked them to give me certain schedules with estimates in connection with taxing inheritances, applying the income tax rate to such inheritances. That plan was proposed by Congressman Lewis here a year or more ago. It has been discussed. In that one instance I did not prepare the definite schedules on that proposition, because I suppose I had made more of a general request. The Treasury prepared several schedules.

Mr. HILL. These schedules and the estimates which you got from them were simply for the convenience of the committee in its study of the question, and were not proposals within themselves, of any particular tax plan.

Mr. PARKER. Absolutely, Mr. Hill. Some of them, as I say, have not been run down at all as to their economic effect. They were merely figures in order to get an estimate on certain bases.

Mr. HILL. I do not think anybody could understand that these estimates constitute proposals.

Mr. PARKER. They do not constitute proposals, Mr. Hill. I do not think anyone that has been dealing with this question ever considered them as proposals.

Mr. McCORMACK. Mr. Parker, with reference to the inheritance tax, there is no inheritance tax by the Federal Government, is there?

Mr. PARKER. We have no inheritance tax. We have an estate tax, and an additional estate tax. We have two estate taxes, but no inheritance taxes.

Mr. McCORMACK. We have a gift tax.

Mr. PARKER. We have a gift tax; yes, sir.

Mr. McCORMACK. Briefly, for the record, will you explain those two estate taxes?

Mr. PARKER. The original estate tax was imposed by the Revenue Act of 1926. It has a \$100,000 exemption. It starts at 1 percent and is graduated to 20 percent in the case of estates of over \$20,000,000 and then allows a credit against the Federal tax of 80 percent of such tax for State taxes paid.

Mr. McCORMACK. That is, if the State adopts a similar law?

Mr. PARKER. No. That is any death tax paid in the State—it may be an inheritance tax or it may be an estate tax—any death duty

of the State is subtracted, except that there is that definite limit. They cannot credit more than is paid to the State and they cannot credit more than 80 percent of the Federal tax. That was to guarantee that we would get at least 20 percent of the tax imposed at the 1926 rate.

In 1932 when we needed more revenue we imposed an additional estate tax and found that we were in a rather difficult position here because in attempting to balance the budget, the Federal Government wanted to get all of the revenue that would result from an increase in the estate tax rates. So that what was decided on and became law was this: We imposed an additional estate tax at tentative rates going up to 45 percent. We only gave a \$50,000 exemption in that case. After computing the tax under those rates, which went to 45 percent, we then subtracted from that tentative tax the tax computed under the 1926 Act and that was the additional estate tax. They really paid two taxes.

Mr. McCORMACK. What did the net increase in the 1932 tax represent?

Mr. PARKER. That was graduated up to 45 percent, which represented an increase of 25 percent in the upper brackets.

Mr. HILL. If you will allow me to interject this question——

Mr. McCORMACK. Certainly.

Mr. HILL. Commencing at what figure?

Mr. PARKER. It commenced at \$50,000.

Mr. HILL. At what rate?

Mr. PARKER. It commenced at 1 percent.

Mr. McCORMACK. And reached a maximum when?

Mr. PARKER. \$10,000,000; 45 percent. In the Revenue Act of 1934, I believe that the estate tax was not changed in the House. But in the Senate the estate-tax rates were amended, in the upper brackets, so that the estate tax was increased to 60 percent in the case of estates of over \$10,000,000.

Mr. McCORMACK. And the rates from \$10,000,000 down——

Mr. PARKER. They were changed.

Mr. McCORMACK. So that now we have a 60 percent maximum.

Mr. PARKER. That is correct.

Mr. HILL. Will the gentleman yield for an additional inquiry?

Mr. McCORMACK. Certainly.

Mr. HILL. Does the 60-percent rate include both the 20-percent maximum and the added estate tax?

Mr. PARKER. Yes. Those rates are really the total rates, because you figure this tentative tax at the rates in the 1932 act as amended by the 1934 act.

Mr. HILL. The first estate tax goes up to a maximum of 20 percent.

Mr. PARKER. Yes.

Mr. HILL. And the super estate tax goes up to a maximum of 40 percent.

Mr. PARKER. Well, the rates in the law go to 60 percent. But you are allowed to subtract the tax under the 1926 act, so that the additional estate tax, you might say, is the 40-percent tax.

Mr. HILL. Eighty percent of the 20 percent.

Mr. PARKER. Yes.

Mr. HILL. Pardon me for breaking in, Mr. McCormack.

Mr. McCORMACK. Surely. Of course, the 1926 act provides for an allocation to the States of 80 percent of the 20 percent.

Mr. PARKER. Yes.

Mr. McCORMACK. So that the net to the Federal Government, of course, is less than the—

Mr. HILL. Just to keep the record straight, it is not an allocation to the States, but a credit to the taxpayer.

Mr. McCORMACK. That is what I had in mind; that is what I meant.

Mr. PARKER. It results in that, but what really happens is that the estate, in the average case, does not really pay that money to the Federal Government at all. They only pay 20 percent to the Federal Government and 80 percent to the State.

Mr. McCORMACK. The net result is what I am talking about. The first 20 percent includes any kind of death taxes that the State might impose, whether inheritance or estate or additional gift which passes upon death.

Mr. PARKER. Whatever they pay they may subtract; yes, sir, with the 80 percent limitation.

Mr. McCORMACK. Have you any computation of what the various death taxes are in the several States, in addition to the Federal taxes?

Mr. PARKER. Yes, Mr. McCORMACK. About 2 years ago we issued a complete report on that subject. It comprised about 250 pages and it disclosed in detail not only our Federal estate tax system, but also the death tax systems of every State in the Union and also foreign countries. It went into great detail. It is not very obsolete. It is very nearly up to date. It was written just before the 1934 act, just before those changes in our own law. But it goes into the matter in great detail.

I might say at that point that 47 States out of the 48 now have estate or inheritance taxes. There is only one State—Nevada—which does not have some form of that tax.

Mr. McCORMACK. Do you know how high those rates in the 47 States run, Mr. Parker?

Mr. PARKER. The great majority of the States do not exceed the 80-percent credit allowed by the Federal law. That means as a maximum the great majority of the States do not go over 16 percent on the estate tax. I recall a few—for instance, I recall Arkansas was higher in their inheritance tax, and there are several which go lower and absorb more than the 80-percent credit in the case of smaller estates, around \$100,000.

They may tax inheritances that we do not reach at all in our own law.

You have every form of tax there. There is no great uniformity among the States. There is a considerable difference among them.

Mr. McCORMACK. That includes all death taxes in the State; you are referring both to estate and inheritance taxes?

Mr. PARKER. Yes.

Mr. McCORMACK. You appreciate my purpose in asking these questions: I wanted to try to get a picture for myself and for the record, not only of the situation as imposed by the Federal law, but by the various State laws, showing what the total taxes are in both Federal and State jurisdictions.

Could you prepare such a table for the record, showing what the taxes are in the various States?

Mr. PARKER. I can prepare such a table.

Mr. McCORMACK. I think it will be very useful.

Mr. PARKER. And I shall put it in the record at some point. I would say this: On the larger estates, and in the general case, the total tax burden, as I said yesterday, is represented by the rates contained in the 1932 act as amended by the 1934 act; because, in general, the States do not take up more than their 80-percent credit. Those are total rates, the total taxes being subtracted even from the 1926 not rates.

The total tax burden is generally represented by that. There are exceptional cases, and I shall try and prepare a table that will show where the death duty burden might be considerably more than what would be represented merely by the two Federal taxes.

Mr. McCORMACK. The Federal Government has heretofore left exclusively to the States the inheritance-tax field; that is true, is it not?

Mr. PARKER. Not entirely so, Mr. McCormack. It is true that the States were in the estate-tax and inheritance-tax field first; that is, not counting probate duties. We had some probate duties away back in 1790.

But the first real-estate or inheritance tax, I believe, was enacted by the State of Pennsylvania about 1826. They came into that field then. We never had any estate or inheritance tax until we came to the Civil War. We used it as a war tax.

We had an inheritance tax then. Then we came to the Spanish-American War. We had an inheritance tax for 2 or 3 years around that time. Then we came into the estate-tax field in 1916.

We had been, therefore, only for just a short period during wars in the estate-tax field until 1916. We had an estate tax continuously since that date.

But when we came into the field in 1916, it is true that about 37 or 38 States had inheritance tax laws. One State, I believe, only had an estate-tax law at that time. So that the field was fully occupied by the States, it is true, when we came into the field permanently in 1916.

Mr. McCORMACK. I am not referring to the estate tax. I am talking about the inheritance tax.

Mr. PARKER. Yes. We have never had the inheritance tax except in those two instances; in the Civil War and in the Spanish-American War.

Mr. McCORMACK. So that other than in those rare and extraordinary emergencies, we have left what I call the inheritance-tax field to the several States.

Mr. PARKER. That is correct.

Mr. McCORMACK. And we have no inheritance tax law now.

Mr. PARKER. No, Mr. McCormack.

Mr. McCORMACK. That is all.

Mr. KNUTSON. Mr. Parker what is the difference between the corporation tax rate and the partnership rate at the present time?

Mr. PARKER. The partnerships are not taxed as such.

Mr. KNUTSON. They are not taxed as such?

Mr. PARKER. No. The individual partners take upon their personal returns their distributive share of the partnership profits,

whether it is actually distributed to them or not, and the corporation, of course, is taxed at a flat rate.

Mr. KNUTSON. Do you know whether any considerable number of corporations have dissolved and become partnerships in order to avoid the payment of the present tax—say small concerns with perhaps only 5 or 6 owners?

Mr. PARKER. I have no personal knowledge of how many cases of that kind may have arisen. It is true that a small corporation that only makes 3 or 4 thousand dollars a year is at some disadvantage compared with a partnership. If the corporation makes \$4,000 a year, for instance, they would have to pay a 13¾-percent tax, whereas a partnership, with two partners, making \$4,000 in all, or \$2,000 apiece, if they are married men, would not pay any tax.

On the other hand, that is somewhat offset by the fact, of course, that you can deduct salaries in the case of a corporation and that salary income being deductible considerably helps the situation.

Mr. KNUTSON. How does the gross tax paid by an American citizen compare with the gross tax paid by a British subject similarly situated?

Mr. PARKER. In the lower brackets, a man with about \$5,000 of net income will pay about 8 or 9 or 10 times the amount of the tax in Great Britain that he pays in this country.

When you get up to a million dollars net income in Great Britain the tax would be about \$630,000 as against \$571,000 in this country; less than 10 percent more.

Mr. WOODRUFF. Does that take into consideration all of the taxes an American citizen pays—Federal, State, county, city, and township?

Mr. PARKER. No.

Mr. WOODRUFF. And also all of the taxes the British subject pays?

Mr. PARKER. In giving you those figures, I was referring merely to the British income tax as compared with our Federal income tax.

Mr. WOODRUFF. Is it not a fact that other taxes the British subject is called upon to pay, aside from the income tax, do not by any means compare to the number or amount of taxes the American citizen is called upon to pay, aside from the income tax?

Mr. HILL. Will the gentleman yield at that point?

Mr. WOODRUFF. Yes.

Mr. HILL. Are you confining the question to income taxes?

Mr. WOODRUFF. No; I am not. I am trying to include all taxes, if Mr. Parker has the information.

Mr. HILL. I understood that he was talking about income taxes in making his comparison.

Mr. WOODRUFF. I am going just a little afield in order to find out, if we can, just what taxes the American citizen pays as compared with the taxes that the British citizen pays. You cannot get that information without going somewhat afield, away from the field of income taxes.

Mr. PARKER. I think the best general measure of that, Mr. Woodruff, is the per-capita-tax burden in the two countries. The per-capita-tax burden in Great Britain is \$99 and a fraction. In the United States—both of these figures are for 1934—the tax burden was \$74.37.

Mr. WOODRUFF. That is the best information you have. Does that figure take into consideration all taxes?

Mr. PARKER. That takes into consideration all taxes, State, local, and so forth. It does not take into consideration special assessments against property or customs.

Mr. WOODRUFF. That does not take into consideration customs or special assessments for public improvements, things of that kind?

Mr. PARKER. That is correct.

Mr. WOODRUFF. Then it is not complete, because it does not give all of the picture, does it?

Mr. PARKER. Of course, customs is a debatable thing. Our revenues from customs are not large—\$350,000,000. Great Britain gets more than we do from customs. I do not think it would change the relative picture very much if we brought in customs.

The trouble with bringing in customs is that you do not know whether to take the receipts as the measure of the real burden on the people.

Some might claim that because you had a tariff it raised the price of all domestic products and the customs collected would have no direct relation to the amount of the burden that the tariff itself might impose on the people. When you get into that field, it is almost impossible to handle it accurately.

Mr. WOODRUFF. I recognize the difficulties connected with it, Mr. Parker, I will say, but what I had in mind was this: A great many people, when discussing the relative taxes paid in this country and in Great Britain, deal only with the income tax. They close their eyes entirely to the fact that we, in this country, pay many taxes that the British citizen is not called upon to pay. By mentioning only the income tax we do not get a fair comparison of the relative tax burden. The information you have just given is very helpful, I will say.

Mr. PARKER. The burden, I might say, on real property is greater in this country per capita. The per capita on real property in this country is very nearly \$37 and in Great Britain it is only about \$18 or \$19.

Mr. WOODRUFF. And that particular tax burden is borne very largely by those less able to bear a tax, is it not?

Mr. PARKER. Yes.

Mr. WOODRUFF. I say that for the reason that we in this country are home owners. The individual who lives in a house, whether he owns it or not, as a matter of fact, is the individual who pays the tax on that piece of property; because when he pays the rent, landlords have fixed the price at a point that will enable them, not alone to pay the tax on the property, but the insurance on it and also a profit on the investment to the man who actually owns the property; is not that so?

Mr. PARKER. Yes.

Mr. WOODRUFF. So that the American citizen—and I am speaking now of the American citizen who finds life somewhat a problem—even though he pays no income tax, even though he pays directly no real estate tax, yet in effect pays a very substantial tax.

Mr. PARKER. Yes. There are many taxes paid by almost every citizen. Of course, indirectly he pays the tobacco tax; the landlord passes on the real-estate tax to him, and other taxes no doubt are passed on to the small-income citizen.

Mr. CROWTHER. If he smokes one pack of cigarettes a day he pays a tax of \$29 plus per year, does he not?

Mr. PARKER. I think that is correct.

Mr. CROWTHER. That is, smoking one pack of cigarettes a day.

Mr. VINSON. I am perfectly willing to have it \$29, but the Federal tax would be about \$21.90. Of course, if he smoked them down in Arkansas, you would have to add another \$19.95.

Mr. KNUTSON. That is about all they have to do in Arkansas is smoke.

Mr. REED. In regard to the gift taxes, are you giving some consideration, or are you going to bring before the committee, the desirability of protecting charitable institutions who receive gifts?

Mr. PARKER. Under existing law, of course, gifts to charitable institutions are completely exempt. Whether the committee wants to change that policy or not, would be for them to decide. In some cases the inheritance-tax laws of the States do not completely exempt them. In some of the States, I say, they do not completely exempt them in the case of inheritances, from the tax, even though it goes to charity.

Mr. REED. What I meant was this. More and more the hospitals and educational institutions are getting to be in greater need of funds. Such gifts as can be received ought to be exempt to provide an inducement, to see to it that gifts are not strangled.

Do you think the condition of the present law is sufficient to protect them?

Mr. PARKER. Under the present law they are amply taken care of, in my judgment, Mr. Reed. I do not know, of course, what the committee may decide to do in connection with inheritance taxes.

It does seem to me, just as a suggestion, that possibly the definition of what constitutes organizations to which these gifts may be made tax free should be looked into rather carefully, if you are going to increase the rates. We have a pretty broad terminology. We include not only charitable organizations but scientific organizations, educational organizations, and so on. The definition is rather broad.

Mr. REED. Personally I think those gifts should be encouraged rather than discouraged.

The CHAIRMAN. If there are no further questions, we thank you for your appearance, Mr. Parker, and the information you have given the committee.

The Chair will observe that Mr. Parker can be with us at any and all times, and we shall have the benefit of his expert information when the time comes to write the bill in executive session.

The next witness is Mr. M. L. Seidman, representing the New York Board of Trade.

STATEMENT OF M. L. SEIDMAN, REPRESENTING THE NEW YORK BOARD OF TRADE, NEW YORK CITY

Mr. SEIDMAN. Mr. Chairman and gentlemen, may I request the privilege of making my statement without interruption?

The CHAIRMAN. You have the right, if you prefer, to make your main statement without interruption, after which you will be expected to answer such questions as the committee may wish to propound.

Mr. VINSON. How much time has the gentleman?

The CHAIRMAN. There has been no rule laid down by the committee limiting time. The committee may do that as it sees fit.

Mr. COOPER. How much time will the gentleman need?

Mr. SEIDMAN. About 15 minutes.

The CHAIRMAN. If we have very many witnesses we may have to limit the time. You may proceed.

Mr. SEIDMAN. Gentlemen, I am here for the New York Board of Trade and will convey its message to you as briefly as possible.

I can say to you that the New York Board of Trade is unequivocally and most emphatically for increased taxation.

Our national debt is now reported to be in the neighborhood of 29 billions of dollars, having increased some 8 billions of dollars within the past 2 years. The expenditures during the fiscal year just closed were approximately 3 billions of dollars greater than our national income. Our expenditures have reached amounts far exceeding any peace-time expenditures by this or any other Nation. It is, therefore, only natural that the Government should seek means by which the national debt may be kept from further increasing. No nation, no matter how wealthy, can indefinitely go on accumulating debts and deficits without endangering its credit standing and the stability of its currency. Therefore, the imposition of additional taxes, in order to increase the income of the Government, clearly cannot be avoided. To the contrary, we are of the belief that any delay in adopting aggressive steps for increased taxation would accentuate our present difficulties.

The President has submitted to Congress a plan to increase taxation; but has done this not only with a view of raising revenue but also, and perhaps chiefly, with the view of redistributing our national wealth. Now, the New York Board of Trade is very much for an increase in tax for revenue. It urges this, that our national budget may be brought to a balance at some reasonably future time. But it voices strongly its opposition to class legislation. In addition, it urges upon you the fundamental proposition that any program to raise additional revenues can benefit the country only if paralleled by a determination to apply the brakes to the spending of Government money. In brief, it contends:

(1) That the new revenue legislation should be passed solely for the purpose of balancing the national budget. And when we say "balancing the budget" we mean not a dual system of bookkeeping but the keeping of all expenditures within total revenue.

(2) That the practice of meeting deficits by borrowing more money should be abolished as quickly as possible.

(3) That the imposition of new taxes be coupled with effective steps to reduce our Governmental expenditures. For no change for the better in the present condition of our national finances can come about until national expenditures are brought in line with national income.

4. That the increase in taxes should be applied not only to the higher income and estate tax brackets, but that taxes on all incomes and all estates should be proportionately increased.

It urges further that all persons receiving the benefit of our Government should contribute directly toward its expenditures in proportion to their earnings, with exemptions reduced to the very minimum.

I will not go into any figures regarding the number of persons filing income tax returns, the classification of them, and the amount paid by each class. The Treasury has already supplied you with authentic

information on that score. I merely want to emphasize that from the 1933 preliminary report of the Bureau of Internal Revenue (and I understand that these are the latest figures available) it appears that out of 3,660,105 returns filed, 3,339,602 of them, or 91 percent of them, reported incomes of under \$5,000. Of the remaining 320,503, 294,361 had an income of less than \$25,000. Only 46 had an income of \$1,000,000 and over. Complete confiscation of incomes exceeding a million dollars would only produce about \$35,000,000 in additional revenue. It must be clear, therefore, that the proposed surtaxes, even in combination with the further proposals for readjusting the tax on corporate incomes and imposing new inheritance taxes, would be only a mighty feeble step toward balancing our budget.

I understand that a tentative scale of rates for the proposed new levies on inheritances would begin with \$300,000 at a 4-percent rate, and reach 75 percent on inheritance over \$10,000,000 (this tax, of course, is in addition to our present estate taxes which themselves reach 60 percent); I understand also that gift-tax rates would be proportionately increased; that corporate income taxes would be made to range from 10 percent on incomes of \$2,000 to 17½ percent on incomes over \$20,000,000 instead of the present 13¾ percent on all corporate income. Surtaxes, on incomes up to \$1,000,000, would remain as in the present law, ranging as they do from 4 percent to 59 percent. On incomes in excess of \$1,000,000, the tax would be increased up to as high as 80 percent. This, plus the normal tax, is virtual confiscation of the larges incomes, if State taxes are considered, as they should be.

The idea of an enforced leveling down of large fortunes to increase small incomes is not a new one by any means. It has been advocated for a long time as a means of making everybody rich. But practical obstacles have been recognized and common sense has prevailed. Such a policy is based on the assumption that no one derives any benefit from wealth unless he owns it—therefore either kill wealth or redistribute it. Isn't this very much like saying that no one has derived any benefit from the development of the steam engine unless he owned one, or from the railroad unless he owned a locomotive, or from the development of power and electricity unless he owned the securities of such companies? Quite to the contrary, isn't it by this time well known that the humblest wage earner is benefited by every improvement in industry? Would it not seem that the public interest is not so much in the ownership of capital, as in the service which capital renders? Would a redistribution of the ownership of the Ford Motor Co., for instance, result in a larger benefit to a greater number of people? Would it increase or decrease employment? Would it increase or decrease wealth? Would it not seem that, through taxation or otherwise, any policy that seeks a larger share for some through exploitation of others will accomplish no more than reduce the aggregate wealth, and with it everybody's share?

The New York Board of Trade, therefore, stands for taxation which, expressed in the President's own words, should be—

based on the broad principle that if a government is to be prudent, its taxes must produce ample revenues without discouraging enterprise, and if it is to be just, it must distribute the burden of tax equitably.

No government, it would seem, can be considered prudent if it attempts to collect taxes on such a basis as would tend to discourage

enterprise. Encouraging enterprise, particularly in the present stage of industrial convalescence, would certainly appear to be much more important than almost any other consideration. Who is there who can doubt that the imposition of a tax engulfing beyond a certain point almost the entire income would discourage enterprise? Who is there who can doubt that taking almost all of an estate in excess of a certain amount would similarly discourage enterprise?

My board has appeared before you time and again, reiterating its belief in the income tax as the fairest sort of a tax yet devised, for governmental revenue. But time and again we have emphasized the need for a wider income tax base than has yet been attempted in this country.

As you know, an official study has recently been made of the English tax system as compared to our own. Much of good was found in the English system that should lend itself for our consideration. One of the basic principles which has made the English system of income taxation a dependable source of revenue and a certain means of keeping its budget balanced in good times and in bad, has been the broad base upon which its income tax is imposed.

From a married individual with no other dependents having a net income of \$2,500 we collect no tax at all. In Great Britain such a person pays into the treasury what is equivalent to \$182.81. There such a married man with an income as low as \$800 pays something as his direct share to defray Government expenses. Throughout the rate structure, the English tax is generally 2 or 3 times as great as ours. Only when incomes reach as high as a million dollars do our tax rates begin to equal those of England. Their principle, is to collect as much as possible from the greatest number of people. Ours has tended toward large exemptions, and extremely small rates on the lower income brackets, offset only in small degree by excessive rates on the highest incomes. About the same disproportionate relationship exists between the British death taxes and our own.

Experience has already demonstrated that the excessive taxation of large incomes and estates will not only not produce revenue, but will in addition dry up the sources of revenue. Our highest income and estate tax rates are pretty nearly at that point right now.

The New York Board of Trade accordingly recommends a courageous broadening of the tax base as one of the most effective means of bringing our Government finances into ultimate balance and making our citizens realize their own personal interest in government expenditures.

On several previous occasions, my Board has appeared before you recommending the enactment of a general sales tax to supplement the income tax. We have done this with our tongues in our cheeks, knowing full well that any tax on business must necessarily impede industry. Nevertheless, we have felt keenly the need for the Government to live within its means. This we knew can be accomplished only by a limitation of expenditures and by a tapping of every possible source of revenue.

Since our last urging the adoption of a sales tax, there have been enacted various processing taxes. These, we consider, are sugar-coated sales taxes in the worst form. They tax the food, the clothing, and the shelter of the poor to an extent undreamed of by any advocate of the sales tax. In fact, they tax the very necessities of life which we deliberately urged for tax exemption.

We are for a man paying his tax knowingly. We are convinced that the chief cause of apparent indifference on the part of so many people toward this entire problem of taxation and expenditures is lodged in the very fact that the average man does not realize he is paying his share of the cost of running our Government. He is therefore all for spending what he thinks is the other fellow's money.

The President has recommended the submission and ratification of a constitutional amendment whereby the Federal Government will be permitted to tax the income on subsequently issued State and local securities and likewise for the taxation by State and local governments of future issues of Federal securities. "The power to tax is the power to destroy." With proper limitations, however, for the preservation of our dual form of Government we are for such an amendment. No one, be he rich or poor, ought to be permitted to escape his just share of taxation by Government sanction through tax exemption. Under present circumstances, tax-exempt securities provide the chief haven of escape from intolerable taxation. Instead, therefore, of money being put to productive use, it hides in tax-exempt securities.

Tax exemption is un-American and all avenues toward it should be closed. But this must be coupled with a reasonable rate of taxation, on a broad enough base, so as to encourage enterprises and promote industry.

Now just a word about the proposed method of taxing corporate incomes. Tentatively, the tax on small corporate incomes would begin with a 10-percent rate and increase up to 17½ percent on the largest income. Heretofore, corporate incomes have been uniformly taxed at 13¾ percent.

It is our belief that these graduated income taxes would be a hardship upon stockholders having small incomes, but owning stock in large corporations. In that way the plan would violate the principle of taxation in accordance with ability to pay. The proposed increases would be levied for the purpose of limiting the size of corporations without regard to the utility and economy that result from size, and without regard to the amount of capital employed. The stock of American Telephone & Telegraph Co., for instance, is held by approximately 675,000 persons. The company's business covers the entire country. Why should these hundreds of thousands of mostly small investors of this company pay a higher tax than investors of like amounts in smaller companies? On the other hand, we all know of instances where men of means have large investments in substantial family-owned corporations, of whose income rich men are the chief beneficiaries. Yet the tax rate on such corporations may be substantially lower than on those whose income is distributed among hundreds of thousands of small stockholders.

The proposal has no apparent basis except to tax "bigness" as such. It overlooks the fact that the public is best served by having all of its wants supplied in the most economical manner and that both large and small corporations have their place in the Nation's economy. The New York Board of Trade, therefore, is opposed to any differentiation in taxing the income of corporations. It recommends, instead, that small corporations having a net income of less than \$25,000 be given an exemption of \$2,000. As an offset to such

an exemption, the rate might be uniformly increased on all corporate income in excess of \$2,000.

In conclusion, may I be permitted to emphasize this one thought? Whatever be the basis of tax readjustment, let it be primarily for the purpose of bringing our National Budget nearer to a balance, let it avoid any implication of class legislation, and let it be paralleled by an application of the brakes on the spending of Government money.

I thank you.

Mr. VINSON. Mr. Seidman, would you mind telling us what makes one eligible to become a member of the Board of Trade of New York?

Mr. SEIDMAN. Any reputable merchant or manufacturer or financial institution interested in the public welfare, and particularly in the welfare of the city of New York, may join.

Mr. VINSON. Do you have members throughout the country?

Mr. SEIDMAN. No, sir. We have but a few members throughout the country. We have a nonresident membership, but that is small.

Mr. VINSON. Do you have both large businesses and small businesses?

Mr. SEIDMAN. Yes. We have large businesses and small businesses. Our dues are only \$50 a year.

Mr. VINSON. You have read the President's message?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. Having read that, you come here and make the statement that your organization favors balancing the Budget?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. That is a very refreshing statement. I am mighty happy to have the viewpoint of such an organization on that line. But the President's message is confined to certain taxes. If I understood you correctly, you do not favor the imposition of any of the taxes mentioned in the President's message?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. Which ones do you favor?

Mr. SEIDMAN. We favor the increase of surtax rates; the increase on corporation income taxes.

Mr. VINSON. Just take them one at a time. I understand now that you advocate the imposition of added surtaxes.

Mr. SEIDMAN. Provided it is done right along the line.

Mr. VINSON. Provided what?

Mr. SEIDMAN. Provided it is done right along the line, from the bottom up and not from the top down.

Mr. VINSON. Let us get your notion as to what sort of increased surtaxes you would recommend.

Mr. SEIDMAN. I would begin with the first dollar subject to surtax.

Mr. VINSON. That is \$4,000, is it not?

Mr. SEIDMAN. Yes, sir. Instead of imposing a 4-percent surtax at that point, I would impose a 10-percent surtax at that point and would increase surtaxes proportionately from that point on in accordance with the ability to pay.

Mr. VINSON. Let us see: When you get up to \$100,000 of net income, what would your rate be there?

Mr. SEIDMAN. I do not think it would be much more than it is today. I think your chief source of collection of revenue ought to be between \$1,000 and \$100,000 of income, with some change above the \$100,000 point.

Mr. VINSON. I am trying to get information, trying to get your viewpoint, because I know you have given it a lot of thought and your folks are very much interested.

At what point would you stop the graduation on surtaxes?

Mr. SEIDMAN. I would stop at no point. I would increase it right up to the maximum amounts of income.

Mr. VINSON. I thought you just got through saying that you thought it ought to go up to \$100,000 and then practically should come to a stop.

Mr. SEIDMAN. I believe that the best possibility of real revenue lies within the lower brackets.

Mr. VINSON. What would you make the rate on \$100,000?

Mr. SEIDMAN. I would have it about 10 percent over what it is today.

Mr. VINSON. When you come to \$200,000, what would be your rate? That is, \$200,000 annual net income.

Mr. SEIDMAN. Between \$100,000 and \$1,000,000 I believe the rates would stand for some increase. It is most difficult to say at what point industry would stop risking its money for the purpose of profit.

Mr. VINSON. Of course, I understand you are not writing the bill, but I wanted to get your suggestions. I asked you what your rate would be at \$200,000.

Mr. SEIDMAN. I believe that rates between \$100,000 and \$1,000,000 can be somewhat increased.

Mr. VINSON. The gentleman understands my question and I am certain he wants to be helpful. What would you make the rate on a \$200,000 net income? As I understood you, you said that on \$100,000 net annual income, you would make it about 10 percent more than it is at this time. At this time the rate on \$100,000 is 50 percent. Then on \$100,000 you would make it about 60 percent?

Mr. SEIDMAN. That is right.

Mr. VINSON. What would you do with \$200,000 annual net income?

Mr. SEIDMAN. Offhand I would say that with a 10 percent increase on \$100,000 perhaps between \$100,000 and \$1,000,000 your surtax ought to increase on each additional \$100,000 an additional 1 percent up to say another 10 percent.

Mr. VINSON. Do I understand you to mean that between \$100,000 and \$1,000,000 it ought to increase 9 percent?

Mr. SEIDMAN. That is right.

Mr. VINSON. It would be really 10 percent then between \$100,000 and \$1,000,000.

Mr. SEIDMAN. Yes.

Mr. VINSON. Then you would finally get up to a 70-percent rate on incomes above \$1,000,000.

Mr. SEIDMAN. That is right.

Mr. VINSON. That is for the excess above \$1,000,000?

Mr. SEIDMAN. That is right.

Mr. VINSON. In regard to corporation taxes, as I understand you, you say you do not favor the graduated corporation tax.

Mr. SEIDMAN. That is correct.

Mr. VINSON. The President's message calls for a lowering of the rate on incomes of small corporations, with an increase on the larger incomes. Do I understand you to mean that you would be adverse to a reduced rate for the small corporate income of those people whom you represent?

Did I understand you to mean you would be averse to having a reduced rate for the small corporate income of those people whom you represent?

MR. SEIDMAN. Yes; in that form; because I do not believe that it is otherwise just to corporate income. The corporation, of course, earns its income for stockholders, and it is the stockholder's income that counts, so far as ability to pay is concerned. Now, a corporation pays 9¾ percent more on its income in the form of a normal tax than does an individual.

MR. VINSON. Do I understand you to mean that you would be averse to having a reduction in the smaller tax for smaller corporate income?

MR. SEIDMAN. That, coupled with an increase on larger corporations; I would be averse to. I recommend a \$2,000 exemption instead.

MR. VINSON. You do not favor an inheritance tax?

MR. SEIDMAN. No man who builds an estate particularly favors an inheritance tax, but we must have taxes.

MR. VINSON. At the present time, do you recommend to this committee that it levy an inheritance tax, in addition to the death taxes now imposed?

MR. SEIDMAN. We favor an increase of taxes all along the line. We favor an estate tax; we favor an increase in the rate of taxes, on both large and small estates. Our difficulty today is that our exemptions are too large, and the rates down below are too small.

An inheritance tax is nothing more than another tax on an estate, and I think it would be much simpler, if you wanted to collect more death taxes to enact larger rates upon present estate taxes that would produce the same tax result rather than to go into a new field of inheritance taxes, which is a very complicated field of taxation.

MR. VINSON. Except for the suggestion as to increased surtaxes, you are against the rest of the President's program?

MR. SEIDMAN. No, sir; I do not think I am.

MR. VINSON. What part of the rest of it do you favor?

MR. SEIDMAN. We are in favor of every one of the President's recommendations, provided there is a general adjustment right along the line, not only at the top, but at the bottom, and in the middle as well.

MR. VINSON. We have not any recommendations from the President imposing an increased tax burden on the small income.

You have read the President's message?

MR. SEIDMAN. Yes.

MR. VINSON. I am asking you the question, whether you favor any other part of the President's program, except that as to increased surtaxes, to which you refer, and you were very explicit on that. I do not know what they will do to you when they get you back to New York, in reference to that, but that is your worry.

But except for the increased surtax, you do not favor any other part of the program? You do not favor a graduated corporation tax, as set forth in the President's message; you do not favor the imposition of an inheritance tax?

MR. SEIDMAN. I think I have just stated that I favor the imposition of an inheritance tax preferably in estate tax form provided it is imposed straight along the line, instead of on high inheritances only.

Mr. VINSON. There is nothing to indicate where we are going to start on inheritances. There is nothing in the message, and nothing has been said to indicate at what point the inheritance tax would start. What would be the gentleman's suggestion as to the exemption on inheritances?

Mr. SEIDMAN. Well, I understand in England the exemptions on inheritance taxes are no more than a few thousand dollars.

Mr. VINSON. Of course, we are a long way from England, although we are closer than we used to be. What is your suggestion for inclusion in the proposed statute that is before us? What is your suggestion as to the exemption on inheritance taxes?

Mr. SEIDMAN. I would start the inheritance exemptions at about \$10,000.

Mr. VINSON. At \$10,000?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. And tax inheritances received above that amount?

Mr. SEIDMAN. That is right.

Mr. VINSON. At what rate would you start?

Mr. SEIDMAN. I believe that if you readjust your estate-tax rates so they will reach smaller estates, your rate on inheritance taxes should be very low.

Mr. VINSON. The present exemption on estate taxes is \$50,000?

Mr. SEIDMAN. Yes.

Mr. VINSON. How much would you reduce it?

Mr. SEIDMAN. I believe as to the exemptions on estate taxes, while they may remain at \$50,000, the rates above that should be much heavier than they are.

Mr. VINSON. How much heavier? You are quite helpful, I am certain. How much heavier should they be?

Mr. SEIDMAN. I am afraid I cannot readily submit a schedule to you worked out in detail.

Mr. VINSON. Let us get back to the inheritance tax. What would be your starting rate, and what would be your maximum rate? Suppose we start with a \$10,000 exemption; would it start at 1 percent or 2 percent?

Mr. SEIDMAN. Remembering that the estate has already been taxed I do not believe my inheritance tax rate would exceed 10 percent at the utmost. I would start at 1 percent and go up to 10 percent.

Mr. VINSON. From 1 percent to 10 percent?

Mr. SEIDMAN. Yes.

Mr. VINSON. Where would you stop the gradation?

Mr. SEIDMAN. I would stop it at a million dollars.

Mr. VINSON. You would run from \$10,000 to \$1,000,000, and go from 1 percent to 10 percent?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. And above a million dollars it would still be 10 percent?

Mr. SEIDMAN. Yes, sir.

Mr. VINSON. Would you care to file with your evidence a schedule showing just what you would do, what rates you would have, and in what brackets changes would be made, as affecting the inheritance-tax problem as well as the surtax problem?

Mr. SEIDMAN. If you think that would be helpful to the committee, I would be very glad to do that. Of course, it would be my own

opinion; I could not file that officially, as representing the New York Board of Trade.

Mr. VINSON. I think we would be very glad to have your view set forth in such a schedule.

The CHAIRMAN. You state that you do not favor a graduated corporation tax.

Mr. SEIDMAN. Yes, sir.

The CHAIRMAN. Would you favor an increase in the flat corporation tax now on the statute books?

Mr. SEIDMAN. Yes, sir; provided the small corporations were given an exemption of two or three thousand dollars.

The CHAIRMAN. What would be the rate you would fix?

Mr. SEIDMAN. I believe that perhaps 15 percent would be all right.

The CHAIRMAN. Instead of 13 $\frac{3}{4}$ percent?

Mr. SEIDMAN. Yes.

The CHAIRMAN. That would be a very slight increase, only 1 $\frac{1}{4}$ percent.

Mr. SEIDMAN. That is only because corporations already are paying an additional 9 $\frac{1}{4}$ percent for the privilege of being corporations.

The CHAIRMAN. I am just trying to get your viewpoint. I want to get the full picture of your ideas in connection with the raising of additional revenue.

Mr. SEIDMAN. Yes, sir. I am glad to give them to you.

Mr. LEWIS. These questions I am about to ask you are not antagonistic. They may seem so, but they are not designed to be.

Mr. SEIDMAN. I appreciate that, sir.

Mr. LEWIS. You favor balancing the Budget?

Mr. SEIDMAN. Yes, sir.

Mr. LEWIS. And the Budget to be reduced to the absolutely essential expenditures of the Government. What reduction do you think the Government might make in its expenditures? Let me perhaps help you.

You do not think we should start reducing the pledged interest payments to the bondholders of the United States?

Mr. SEIDMAN. A great many of those have already been reduced.

Mr. LEWIS. I mean pledged interest on Government bonds. You do not think the Government should reduce the rate of interest on outstanding bonds, do you, except in the regular way?

Mr. SEIDMAN. The Government has already done a wonderful job in that regard, in reducing the interest on its indebtedness.

Mr. LEWIS. You understand the point of my question, I am quite sure.

Say you own a Government bond on which the Government has agreed to pay 4-percent interest. You do not think the Government should reduce that rate of interest on that bond to 3 percent, do you, while the bond is still outstanding and unpaid?

Mr. SEIDMAN. No; I think the Government should live up to its contractual obligations at all times, as we all try to do.

Mr. LEWIS. As to the expenditures for the Navy, do you think a reduction might be made there? Do you think a reduction might be made in the War Department appropriation?

Mr. SEIDMAN. Of course, it would be perfectly foolish for me to come up here and tell you gentlemen where to commence to make

reductions in expenditures. We do know that we are spending \$2 for every dollar that is being taken in, and we do know that that is not a healthy condition, and that it cannot last forever.

So we say to you, although we are spending this money now, let us say to the people of the United States, we are going to call a halt, we are going to live within our income, we are going to balance our budget, whether it be within a year, or 2 years, or 5 years, and what is more, we are going to start right now doing it. I think that would be the best tonic that this great committee of yours can give to the people.

Mr. LEWIS. Now, in all the membership of your client, not many of them are as much concerned as I am, personally, about balancing the whole budget.

You have suggested that we might proceed to balance it largely by reducing expenditures of the Government, and I want sincerely to know what expenditures of the Government you think we might reduce. You ought not to make a general statement about the reduction unless you have some particulars in mind as to how it might be done.

Mr. SEIDMAN. I do have particular things in mind which might be done. You and I have heard of men who are on relief rolls, who refuse to take jobs because they are better off on relief.

Mr. LEWIS. You say they are better off on relief than they would be on jobs?

Mr. SEIDMAN. That is a concrete instance.

Mr. LEWIS. But you would not reject the relief appropriation entirely because of such exceptions.

Mr. SEIDMAN. Not by any means.

Mr. LEWIS. Let me ask you this question, and that is, whether any of the members of the organization for which you speak, any single one of your members, has called the attention of the Federal or other public authorities to "bums" on the relief rolls who have refused jobs?

Mr. SEIDMAN. We are doing this as a civic duty. The New York Board of Trade has done that time and again.

Mr. LEWIS. Called attention to cases of abuse of relief funds?

Mr. SEIDMAN. Not of particular individuals, I suppose, but we have called to the attention of the city authorities such a condition.

Mr. McCORMACK. Of course, it would be rather difficult to know about specific cases, unless you have an investigational staff working on the relief rolls, would it not?

Mr. SEIDMAN. That is true.

The CHAIRMAN. How do you know there is abuse?

Mr. McCORMACK. I think the gentleman makes a very fine witness. He has impressed me very favorably, but I do not have to agree with everything he says. But his sincerity is very apparent.

Your idea is to levy the proposed taxes so they will not go beyond the point of eliminating returns?

Mr. SEIDMAN. That is correct.

Mr. McCORMACK. That summarizes your statement in a general way?

Mr. SEIDMAN. That is right.

Mr. McCORMACK. Whether we agree with you or not, you believe that a property base is part of a social program, the same as the imposition of heavy taxes in the upper brackets?

Mr. SEIDMAN. I believe that is for the best interest of all the people.

Mr. McCORMACK. Money is not wealth; property and what we produce constitutes wealth, in a general way; is that right?

Mr. SEIDMAN. That is correct.

Mr. McCORMACK. It is what we call income which wealth produces, and that which is conserved increases wealth, continuing later to produce income, and that is the real field where taxes might properly be imposed; is that right, in a general way?

Mr. SEIDMAN. If you kill the source from which taxes flow you kill the Government revenue in the future.

Mr. McCORMACK. When you destroy wealth you destroy the means by and through which income is produced?

Mr. SEIDMAN. That is correct.

Mr. McCORMACK. So the matter of taxation presents a very practical question; because, if you go beyond diminishing returns, with the factors that flow therefrom, it ultimately will be destructive of our theory of taxation as to taxing income.

Mr. SEIDMAN. That is bound to be so.

Mr. McCORMACK. A productive estate that is transmitted continues to do service; at least that has been my observation. Do you agree with that? If I inherit property and I put it into productive use, I am serving somebody by giving them employment, am I not?

Mr. SEIDMAN. Very much so.

Mr. McCORMACK. And an unproductive estate, or an inheritance which is unproductive, usually vanishes in at least one or two generations.

Mr. SEIDMAN. That has been the experience.

Mr. McCORMACK. The point is not to impose a tax which will destroy that which produces income, and if you impose too high taxes you destroy individual initiative.

Mr. SEIDMAN. That is what I fear about increasing rates of taxation. I say that only because I recognize the fact that living within our means is the most important thing we have before us today, as a nation.

Mr. McCORMACK. In balancing a budget, of course, we know that governments are like individuals; they have ultimately to keep their expenditures within their income.

They might be able to expend more than their income for a longer period than individuals, but the same rules apply, in a general way, as I view it.

We have a humane side here which, of course, you recognize.

Mr. SEIDMAN. Very much so.

Mr. McCORMACK. You have to face that. In a depression it is the duty of the Government to extend its secondary functions to relieve its distressed people.

Do you agree with that?

Mr. SEIDMAN. Very much so.

Mr. McCORMACK. What you have in mind is that, consistently with performing that duty and those responsibilities, the emergency expenditures should be tapered down as rapidly as it is reasonably proper and possible.

Mr. SEIDMAN. You have stated the case very much better than I could.

Mr. McCORMACK. I appreciate that, but I do not agree with you on that point.

But I wanted to get your viewpoint. Whether it takes 1 year, 3 years, or 5 years, you believe such a message to the American people, and to American business, would be one of inspiration?

Mr. SEIDMAN. It would be the greatest stimulant we could receive today.

Mr. HILL. What is that message?

Mr. McCORMACK. That the budget is to be ultimately balanced in some period, up to 5 years.

Of course the imposition of 3 billion dollars in taxes now would be very depressing; you realize that?

Mr. SEIDMAN. Any increase in taxes will be depressing, to a degree.

Mr. McCORMACK. Of course, it has deflationary features, and a \$3,000,000,000 tax, or a tax bill which proposes the imposition of a tremendous burden now, would be inadvisable?

Mr. SEIDMAN. We do not advocate immediately balancing the budget. It would prostrate industry if you tried to do it in one step.

Mr. McCORMACK. I think you realize that these tremendous expenditures were essential on the part of the Government to meet an extraordinary humane problem that faced our people.

Mr. SEIDMAN. I realize that some of the emergency things were absolutely essential and necessary.

Mr. McCORMACK. And the general theory, and the general objectives, are not only desirable, but reasonably necessary.

Mr. SEIDMAN. I can readily agree with that as to some, but I most emphatically disagree with that as to others.

Mr. McCORMACK. I am talking about the general purpose.

Mr. SEIDMAN. Generally, I believe we have gotten to the point where we ought to consider saving rather than spending.

Mr. McCORMACK. Saving consistently——

Mr. SEIDMAN. Until we get out of the mess.

Mr. McCORMACK (continuing). With the responsibility we owe to our economically distressed people.

Mr. SEIDMAN. Yes, sir.

Mr. McCORMACK. You are not advocating the cessation of relief activities?

Mr. SEIDMAN. It would be impossible to do so; it would be most inhumane to do so except gradually, but we must make a start.

Mr. McCORMACK. As conditions improve, you believe there should be a gradual tapering down toward the expenditures of the ordinary Budget?

Mr. SEIDMAN. Yes, sir.

Mr. McCORMACK. With increased taxes which will reasonably meet that within a period of not to exceed 5 years?

Mr. SEIDMAN. Yes, sir.

Mr. KNUTSON. Mr. Chairman——

The CHAIRMAN. Mr. Knutson is recognized.

Mr. KNUTSON. You mentioned the fact a while ago that quite a few people in New York now on relief would not take jobs because they did not want to be severed from the relief rolls.

Mr. SEIDMAN. Yes, sir.

Mr. KNUTSON. I was very much interested in reading in the Sunday morning papers of the danger of the raspberry crop rotting on the bushes because they cannot get people on the relief rolls to pick the raspberries, on the theory that if they were to go to work they would be put off the relief rolls.

Do you not think that the best form of relief that this Government could give—and I will use that term so as not to be accused of partisanship—would be to reassure industry so that they might resume normal production and put unemployed people back to work?

MR. SEIDMAN. By all means, I think the reassurance of industry would put more capital into operation and into production and into employment than the Government can ever hope to do, by spending Government money.

MR. KNUTSON. What we are doing now is living off our own fat.

MR. SEIDMAN. I think that is the truth.

MR. KNUTSON. And the fat is about all gone.

MR. SEIDMAN. I have seen some lean fellows around our way.

MR. LEWIS. What do you mean, sir; by reassuring industry? Hoover's administration, I think, gave them everything they wanted, did they get any reassurance?

What do you mean by reassuring industry? Be specific, so that you may be of some help, as I have no doubt it is your purpose to do.

MR. SEIDMAN. I am afraid I am not able to tell you anything new. I am sure I cannot tell you anything new in that regard.

But my own feeling about the reassurance of industry is this. Industry does not know whether if it invests capital it will be taxed out of existence first, or whether the policy and the method of the Government will so change as to make a man feel that he might just as well put his money in a bank, or a vault, or tax-exempt securities than to risk it where he does not know how much of it will disappear.

MR. LEWIS. Do you know of a single instance of a man with capital who sees an opportunity for the investment of that capital in industry with the assurance of a return, who is deterred from making that investment because of tax possibilities? I am sure I do not.

MR. SEIDMAN. I know of at least a dozen instances of men who are keeping their capital liquid so that when times are settled they can either go into business or expand their plant.

MR. LEWIS. When times are settled?

MR. SEIDMAN. When times are surer and safer and more certain.

MR. LEWIS. There are hundreds of thousands of people in that situation independent of taxation policies I am sure everybody will agree.

Do you know anything specific that the administration or the Government can do that will reassure business?

MR. SEIDMAN. I think I have stated that in my opinion the most desirable thing the Government can do today is to state to the Nation that we realize that we have been spending beyond our present means. That was perhaps necessary, but we have come to a point now where, as Secretary Morgenthau said yesterday, at least the emergency has substantially passed.

Now, let us take advantage of that situation and tell industry that we are not going to increase expenditures from this point on, but that from now on we are going to decrease expenditures.

MR. LEWIS. Do you mean that capital has gone on strike against improvements in industry because of the relief rolls?

MR. SEIDMAN. I would not say that it has gone on strike. Probably it is only human nature for a man to try to conserve his capital, and risk it only when he knows he can make a profit.

The CHAIRMAN. Is there anything that the Government ought to have done, or can do, to assure industry with certainty that it will make a profit? That is the most astounding statement I have ever heard a witness make.

Mr. SEIDMAN. No; but I think the Government can assure industry that it will not do things which will result in loss to industry.

The CHAIRMAN. Who is to be the judge? Would you allow industry to be its own doctor and write a prescription before the Government should do anything? Who is to determine that?

Mr. SEIDMAN. I think the Government needs to determine to keep its own house in order first.

The CHAIRMAN. Who is to say when the Government's house is in order, the Government itself, those in authority in the Government, or industry, or both?

Mr. SEIDMAN. Of course, in that regard there are certain things that I think the Government would be able to do.

The CHAIRMAN. That is not answering my question.

Who is to determine the attitude of the Government toward industry, the responsible authorities of the Government or industry itself?

Who is to determine the amount of taxes to be levied? Is the Government, or the responsible officials of the Government, to determine that, or is industry to impose its own taxes, and say what the policy of the Government shall be?

Mr. SEIDMAN. It will ultimately be the people of the United States.

The CHAIRMAN. We have a representative Government; industry has a voice in the Government. In what other way could industry have the matter determined except through representative government? Would it do it directly, or through its representatives in the Government?

Mr. SEIDMAN. Industry can only hope to appeal to you gentlemen to see its point of view. The final decision is with the Congress and with the people of this country.

The CHAIRMAN. You do not take the position that the Government can guarantee industry that it will make a profit on all its investments, do you?

Mr. SEIDMAN. No; of course not; and I do not know that anybody has made that claim, without getting into complete regimentation of industry and business, and that is what we want to get away from.

Mr. REED. It would reassure business in more than one way if there could be some evidence of an intention to balance the budget.

The business men of this country have the example of Russia, Austria, France, and Germany on the problem of inflation. Any further inflation is not likely to reassure business, is it?

Mr. SEIDMAN. Hardly; that is one of the threats that we have been living with.

Mr. REED. If the Government keeps plunging ahead with bills like the billion-dollar-bill which recently passed the Senate, the inevitable result must be inflation. That has been so in other countries, has it not?

Mr. SEIDMAN. Yes, sir.

Mr. REED. Do you think it is reassuring to business to attempt a public-works program like that which totally failed in both England and in France?

Mr. SEIDMAN. I do not believe so.

Mr. REED. Do you think that a constant threat of devaluation of the dollar is encouraging to business?

Mr. SEIDMAN. I would hardly think so.

Mr. REED. There is such a threat hanging over the country, is there not?

Mr. SEIDMAN. Yes, sir.

Mr. REED. Do you think it is encouraging to the coal business to have the Government going into the electric business on a large scale?

Mr. SEIDMAN. Hardly.

Mr. REED. Do you think it is encouraging to business to have the Government engage in all kinds of business?

Mr. SEIDMAN. I would not think so.

Mr. REED. If some of these things that we have entered upon should be eliminated, so that some of the fears of the people could be overcome, there would be some chance for recovery?

Mr. SEIDMAN. I think so.

Mr. REED. Do you think it is helpful to business to have importations coming in here underselling our products?

Mr. SEIDMAN. Hardly.

Mr. REED. With goods that could be manufactured here?

Mr. SEIDMAN. Hardly.

Mr. LEWIS. In other words, reassurance to business means adopting the Republican Party's program again?

Mr. VINSON. Which one?

Mr. LEWIS. With reference to the danger of inflation, the gentleman certainly would not intimate that the consideration of a tax bill such as we are considering now tends toward inflation?

Mr. SEIDMAN. Presumably you are referring to the deflationary effect of a tax bill. I believe, sir, if we consider this tax bill in the light of the President's own statements regarding "changes in 'policy' of taxation", with his reference to million-dollar incomes and his statement that "our revenue laws have operated in many ways to the unfair advantage of the few", and "the movement toward progressive taxation of wealth and of income has permitted the growing diversification and interrelation of effort which marks our industrial society"; and also this statement, "whether it be wealth achieved through the cooperation of the entire community or riches gained by speculation—in either case the ownership of such wealth or riches represents a great public interest and a great ability to pay"; and such a statement as this, "In the last analysis such accumulations amount to the perpetuation of great and undesirable concentration of control in a relatively few individuals over the employment and welfare of many, many others"; such statements, I believe, are clearly directed to the taxation of the few and not the many. Hence taxation not for revenue but for the leveling down of wealth. The threat of such a plan might well be inflationary.

Mr. LEWIS. I am speaking about something that you have not touched in those quotations. I am referring to inflation. Raising taxes looking toward balancing the Budget is not heading toward inflation.

Mr. SEIDMAN. You are entirely right, but taxes on wealth alone will be only a drop in the bucket toward balancing the Budget.

Mr. LEWIS. Have you any doubt as to the attitude of the President of the United States toward inflation, after he delivered his message on the bonus bill?

Mr. SEIDMAN. No, but this proposed tax program would not balance the Budget.

Mr. LEWIS. You will admit it is a step in that direction, and if we take your suggestion, starting inheritance taxes down with an exemption of \$10,000, we may have more money than was contemplated when you gave us your off-hand figures.

Mr. SEIDMAN. That would be a wonderful thing, of course. But starting with \$10,000 is not the reaction I got from a reading of the President's message.

Mr. LEWIS. The raising of taxes certainly is not inflationary.

Mr. SEIDMAN. Raising taxes with a view to balancing the budget and cutting down expenditures is a step in the right direction, undoubtedly.

The CHAIRMAN. Naturally, those in authority in the Government do sometimes make mistakes, and are subject to criticism, which is wholesome, if it is well founded. But what authority have you or anybody else for the assertion that the Government is engaged in all kinds of business, as you stated in response to my friend from New York? What is the foundation for that statement that was made a while ago? Will you elaborate on that statement?

Mr. SEIDMAN. Of course, that is a statement which was made by one of the gentlemen here of your honorable committee, and that is also my own general impression. I think the Government is in many—

The CHAIRMAN. No; the statement was that the Government is engaged in all kinds of business. That is the statement you responded to. Is that so or not so?

You do not have to hesitate to answer that; you can answer it, yes or no.

Mr. SEIDMAN. I do not know whether that can be answered off-hand; I do not know that I can give you off-hand a complete list of every business the Government is engaged in.

The CHAIRMAN. Can you state that the Government is engaged in all kinds of business, or can you state that it is not? That is the question.

Mr. SEIDMAN. Of course, this was not a question put to me; it was a statement that was made by one of the members of this committee.

The CHAIRMAN. It was stated as a fact.

Mr. REED. Would you object to filing as a part of your statement, if the committee does not object, the Shannon report showing how far the Government has gone into business, and it has gone into many other fields of business since that report was made by a prominent Member on the Democratic side of the House.

The CHAIRMAN. Did the gentleman answer my question?

Mr. VINSON. I object to the inclusion of that report on the ground of economy. It is a public document and there is no need to spend money in republishing it.

Mr. KNUTSON. Not only that, but you do not want the information.

Mr. VINSON. It is available to you, and you have not any trouble about getting it any time you want it.

The CHAIRMAN. It seems to me that this hearing has developed into a purely political discussion.

Mr. WOODRUFF. In reference to the question the chairman just propounded to you, whether or not, in your opinion, the Government is now engaged in all kinds of business, that would be a rather difficult question for anyone to answer.

The CHAIRMAN. Will the gentleman yield?

Mr. WOODRUFF. Surely.

The CHAIRMAN. That statement was made, and just as you say, I thought it would be difficult to answer.

Mr. WOODRUFF. I might suggest to the witness that if he will examine the incorporation papers of three different governmental corporations that have been organized under the laws of Delaware he will be able to learn where this Government is authorized under those charters to engage in all kinds of business, in competition with private business and as long as that situation exists it is easily understood how the minds of the business people of this country can be confused and can be alarmed, as a matter of fact, as to the possibility of governmental activity and competition in every line of business.

Mr. KNUTSON. For the information of the witness, I may say that the Government is in the railroad business, in the steamship business, and it controls insurance companies, fire insurance companies, and banks, and it is also in the electric power and light business.

Oh, yes, and we must not forget the manufacture of clothing and furniture. The Government has a furniture plant out here in West Virginia, and when it got into operation they knocked out a number of furniture workers in Grand Rapids, Mich.

Mr. WOODRUFF. I might say that the Government at the present time is operating two different manufacturing plants in my home city, a mattress factory and a clothing factory.

Mr. VINSON. In regard to operating plants in the city of the gentleman from Michigan, were loans made to those plants by the R. F. C.?

Mr. WOODRUFF. They were not. They are being operated by the Government of the United States, with representatives of the Government there.

Mr. VINSON. Is one of those plants manufacturing mattresses to be donated to the poor who have not any mattresses?

Mr. REED. Those are the ones similar to the ones in Chicago they put in there just before election time to get their votes.

Mr. McCORMACK. Now that that question has been settled, will the gentleman yield?

Mr. WOODRUFF. I yield to my distinguished and able friend from Massachusetts.

Mr. McCORMACK. I think in justice to the witness, he should not be made the constant victim of a line of partisan remarks, which are all a part of the game.

Mr. SEIDMAN. I enjoyed it very much.

Mr. McCORMACK. Your answers were in response to hypothetical questions propounded by one of the members of the committee in a general way; is that correct?

Mr. SEIDMAN. With regard to the Government being in business?

Mr. McCORMACK. Yes.

Mr. SEIDMAN. I took it so; yes.

Mr. McCORMACK. Of course, there is a distinction between normal activities and emergency activities.

You recognize that fact?

Mr. SEIDMAN. I recognize that an emergency needs special treatment.

Mr. McCORMACK. Without a lot of unnecessary questions from the committee on the tax measure, you tried to make constructive suggestions?

Mr. SEIDMAN. That is entirely correct.

Mr. McCORMACK. And you were never intended to be made the victim of a general discussion of partisan politics.

Mr. SEIDMAN. I enjoyed it very much.

Mr. McCORMACK. So did I. But in a general way, looking over the general picture, you approve this proposition, generally speaking? Without picking out anything here and there, you approve the general principle?

I am not asking this by way of comparison directly or indirectly, with the preceding year, but in a general way you approve the activities of the last 2 years?

Mr. SEIDMAN. I am afraid I cannot go with you that far.

Mr. McCORMACK. But in a general way?

Mr. SEIDMAN. In a general way, I would exclude more than a majority of the activities, so I would have to answer your question no. But I hope to be spared the necessity of going into that phase of it.

Mr. McCORMACK. You approve, in a general way, of the humanitarian efforts that have been made?

Mr. SEIDMAN. By all means.

Mr. DINGELL. Sometime ago, Eugene Black, now deceased, at the time I refer to chairman of the Federal Reserve Board, appeared before a large aggregation of business men and industrialists in Cleveland. Do you recall reading anything about Mr. Black's remarks at that time?

Mr. SEIDMAN. Yes; I recall something of his remarks.

Mr. DINGELL. To refresh your memory, probably I might touch on them.

One of the first things he said was that business was better than the confidence of the business men; and that, to my notion, was quite an indictment of business, because of its lack of confidence.

In other words, business was far in the background insofar as confidence in the Nation is concerned.

He also stated that business was constantly looking to the President and to the Congress to do something or say something that would stimulate their confidence.

In the meantime, nothing was being done by industry to solve the problem of unemployment, and the Government therefore had to step in during the depression, because if the Government did not, who would?

Then he said that industry always insists upon knowing in advance what the tax burden will be.

In my estimation he should have added that if industry waited long enough there would be a tax problem, and that industry and not the unemployed would have to bear the burden.

It necessarily follows that the unemployed are not able to pay the tax imposed in this or in any other measure that applies to taxes, whether State or Federal.

While former President Hoover was in office he reassured business and industry at intervals of about every 3 weeks. I think that is a matter of common knowledge.

What was the response? Did we not continue foundering in spite of these assurances? And the Hoover administration left a deficit of billions of dollars on our doorstep, which we seem to willfully overlook at this time. To be exact, the amount of the deficit left to this administration was something over 5 billion dollars, and the Congress levied additional taxes during the Hoover administration.

At that time there was an assurance and a continued reassurance to business.

We had big business conferences called here in Washington, and what effect did they have on industry?

When Mr. Roosevelt was elected confidence in this country had reached a high peak, but what did industry do? Industry sat back and said, "Now, we will see what effect it is going to have?"

Every individual in this country knows that had business taken hold there would have been no necessity for the \$4,800,000,000 bill in this session. The \$3,300,000,000 and the inspiration that Roosevelt gave the Nation at that time was sufficient to have carried the country on to normal times. It is a matter of common knowledge and generally conceded that the appetites of our people, their likes and desires, are just as strong today as they have ever been.

People want nice new automobiles; they want radios, and they want an extra radio for their kiddies. They want to have a seaside cottage and a motor boat, and all the nice things they have always had.

So, when confidence was ripe, business should have gone ahead, but instead of that it crawled into its shell and decided to await results.

In the meantime they did not do anything. It is known generally that the depression can be whipped not by the Government alone, but rather by cooperation and aggressive united action by the business and industry of the Nation working with the Government. The people are ready to cooperate with both.

MR. KNUTSON. One reason why business was apprehensive was the fear that we would go onto a free-trade basis, which we have done through reciprocal trade agreement.

American business men do not feel like going ahead when they know that they are going to be forced in competition with the cheap labor of Asia and of Europe.

The gentleman who just interrogated you must know that imports from Japan of textiles and other products practically closed American textile mills, and when the gentleman from Michigan intimates that anyone is so partisan that he deliberately keeps his factory closed to help the party that is out of power, he is just dealing in myths.

MR. REED. I was just going to say, in reference to the remark of Mr. Dingell when he spoke about rising confidence upon the election of Mr. Roosevelt, that Mr. Roosevelt was elected on a definite specific program to which he pledged his allegiance 100 percent.

Then business was surprised to see him adopt the platform of the Socialist Party at Cleveland and repudiate the promises made in the Democratic platform.

Mr. HILL. You would not like to have the country go back under the conditions out of which we have emerged during the years of this administration, would you?

Mr. REED. When the country goes back to sound Republican principles, then we will have that same prosperity that we had before, and you will not have it until you do go back to the principles of the Republican Party.

Mr. WOODRUFF. Correct.

Mr. VINSON. Which ones?

Mr. HILL. Whether sound or unsound principles?

Mr. WOODRUFF. May I ask you, sir, what in your opinion is to be gained by constantly increasing taxes when at the same time we are constantly increasing the expenditures of the Government?

Something has been said about spending money. There has been a spending orgy for the last 2 years in this country. The purposes for which it was purportedly spent are very laudable; I agree to that. We have to do some spending, probably, for the purpose of bringing economic order out of chaos.

But when we consider the spending program that is immediately ahead of us, the spending orgy of the last 2 years sinks into insignificance.

We are faced with a situation under this administration where we are supposed to spend approximately \$5,000,000,000 in the next year. Anybody with any intelligence knows that money in that amount cannot be expected to be spent intelligently for necessary and worthy projects in the time there is in which to expend it. The amount I speak of is over and beyond the amount of money that is ordinarily expended for the regular departments in the operation of the Government.

Mr. SEIDMAN. That is the reason, when I am asked whether I am for increased taxation, I say by all means, providing always that at the same time, and parallel to increased taxation, there is at least some attempt to draw the line, and say that from now on expenditures will not be increased, but decreased.

Mr. WOODRUFF. We cannot inspire confidence in the business mind by constantly increasing expenditures and constantly increasing the burden upon industry already overburdened.

Mr. SEIDMAN. Hardly.

The CHAIRMAN. These expenditures cannot be made unless they are authorized by Congress.

Mr. WOODRUFF. I understand that, but I was not one of the Members of Congress that voted to authorize it.

The CHAIRMAN. Would the gentleman say that we could not take the whole matter in hand and that Congress does not have the right to do these things?

Mr. WOODRUFF. It seems to be the general judgment that the majority ought to legislate, but the minority unfortunately is compelled to listen; the minority unfortunately is compelled to accept its share of the burden thrown upon the people of the country by such program of reckless, wanton expenditures.

The CHAIRMAN. That is the gentleman's opinion.

Mr. WOODRUFF. I realize that. But it is the growing opinion of the country.

The CHAIRMAN. The committee will take a recess until half past 2 o'clock this afternoon.

(Thereupon the committee stood in recess until 2:30 p. m. this day.)

AFTERNOON SESSION

The committee reconvened at 2:30 p. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will please come to order. We will call out of regular order, by request of a member of the committee, Mr. Robert Jolly, of Houston, Tex.

STATEMENT OF ROBERT JOLLY, HOUSTON, TEX., PRESIDENT AMERICAN HOSPITAL ASSOCIATION

Mr. JOLLY. I am chairman of the joint committee of the American Hospital Association, the Catholic Hospital Association, and the Protestant Hospital Association.

Mr. Chairman and gentlemen, first, I want to take this opportunity to thank you gentlemen for what you did in the case of nonprofit hospitals in the social security bill. I have never had the opportunity to thank you, and I would like to thank you now.

I would like to make this statement now:

The joint committee of the American Hospital Association, the Catholic Hospital Association and the Protestant Hospital Association hereby respectfully requests that hospitals organized and operated not for profit be exempted from any taxation on gifts, bequests, and income under any bill that may be presented.

A part of the income of voluntary hospitals is from contributions which the hospitals devote to charitable activities. To encourage these gifts by making them tax exempt would enlarge the charitable activities of the hospitals. To lessen by taxation the net amount of these gifts would decrease proportionately the ability of the hospitals to carry on charitable activities.

Enclosed is a sheet showing the contrast in donations to voluntary hospitals in 1929 and 1934, and showing the extent to which these donations have already shrunk. The operating income from pay patients has decreased so greatly that hospital administrators view with alarm any further inroads on the hospital income.

The hospitals are making a large contribution to the social security and health of the Nation without any recompense from the Federal relief agencies. They ought not to be asked to reduce this contribution of service in order to make a contribution of money.

I have this statement here, showing all the gifts to voluntary (operated not for profit) hospitals for 1929 and 1934, covering private gifts and donations, legacies and benefactions, community chests and other community organizations and money-raising campaigns, subsidies, grants, and all other sources. Our hospitals received \$185,000,000 in 1929, but in 1934, they only received \$49,000,000. From private gifts and donations in 1929, we received \$58,000,000, but in 1934, only received \$16,000,000. The donations to hospitals have decreased 75 percent in 5 years.

Under this discussion which we have had here today, if a person makes a gift to a hospital, as we understand it, there would be a taxa-

tion, or the recipient would be taxed a certain percent on the amount of money that the hospital receives. We are asking that you see that the voluntary hospitals, that is, hospitals operated not for profit, are exempt from taxation upon the gifts that we may receive. As you know, many of our hospitals, in fact, most all of them, are incorporated. If a corporation must pay a tax on its income, that would strictly put our voluntary hospitals under it. We are asking that the nonprofit hospitals be exempt from both provisions in the bill.

If there are not any questions, Mr. Chairman, that is all. I would be glad to answer any questions, to show you the situation of the hospitals. Of course you know that most of the money we get from donations is used to take care of charity patients, which money has gone down 75 percent in 5 years. Therefore, you see what we are up against, with fewer paying patients and more free patients. We want to be certain that hospitals are not left out of this thing, when you come to pass this bill.

(The statement referred to is as follows:)

Gifts to voluntary (operated not for profit) hospitals

	1929	1934
Private gifts and donations.....	\$58,000,000	\$16,000,000
Legacies and benefactions.....	84,000,000	13,500,000
Community chests.....	9,000,000	8,000,000
Other community organizations.....	7,500,000	6,500,000
Money-raising campaigns, subsidies, grants, and all other sources.....	26,500,000	5,000,000
Total.....	185,000,000	49,000,000
Private gifts and donations.....	58,000,000	16,000,000
Legacies and benefactions.....	84,000,000	13,500,000
Total.....	142,000,000	29,500,000

The CHAIRMAN. The next speaker is R. V. Fletcher, Washington, D. C.

STATEMENT OF R. V. FLETCHER, REPRESENTING ASSOCIATION OF AMERICAN RAILROADS

Mr. FLETCHER. I am a lawyer living in Washington, D. C., and I represent the Association of American Railroads, of which I am counsel.

I have no prepared address, but I want to make some observations to the committee, with respect to so much of the matter now under consideration as deals with the progressive, graduated tax upon corporations. That is the only feature with which I will deal.

The CHAIRMAN. Let the Chair announce that a motion was made and unanimously adopted that the witnesses appearing before us in this hearing will be expected to confine their remarks to the subject covered by the President's message, that is, to the taxes referred to in the message. Other taxes will not be considered within the scope of these hearings.

Mr. REED. Mr. Chairman, I do not believe it was unanimous.

Mr. VINSON. Was there any vote against it?

The CHAIRMAN. I did not hear it.

Mr. FLETCHER. It is certainly within the spirit, and I hope within the letter of the resolution, Mr. Chairman, and this discussion of mine will take the form of a consideration of whether it is a proper thing

to apply progressive, graduated scale of taxes to railroads, and that would be within the scope of the President's message, since he has suggested, as I understand it, that there will be a graduated income tax upon the net income of all corporations, including all railroad corporations.

Mr. COOPER. I think there is no doubt, Judge, that your discussion would come within the scope of that matter.

Mr. FLETCHER. I am anxious to conform to the rule, and if I get outside of it, I hope somebody will correct me.

Mr. Chairman, on the question of time, I do not know whether you have any definite ruling as to the limitations upon the time of any particular witness. I shall try to get through just as soon as I possibly can. I am mindful of the admonition of the Chair this morning that you would like to hold down your hearings to reasonable limits, and I will not transgress any further than it seems to me that the interests of my clients require.

The Association of American Railroads, with which I am connected, is a voluntary association composed of about 99 percent of the large class I railroads of the United States, and of Canada and of Mexico. Of course, we are dealing here particularly with the railroads within the territorial limits of the United States.

When I say "class I railroads", I lay emphasis upon that, because, as you know, a class I railroad is a railroad that has gross earnings annually of \$1,000,000 or more. I therefore represent comparatively large railroad corporations. And under the plan, as I understand it, which is here under discussion, very nearly all of the railroads that belong to the association by which I am employed would be subjected to income taxes higher than the present 13¾ percent flat scale. There may be some smaller railroads in classes II and III which may be beneficiaries of a plan which would put a lower tax upon small incomes and a relatively high tax upon large incomes. I want to make that perfectly clear.

I am not here to discuss the abstract question of whether it is sound policy to put a graduated, progressive tax upon corporate incomes. I have some very decided views upon that subject, based upon considerations which have already been presented to the committee in a way, and upon some of my reading of what the tax economists have said as to the inherent justice or injustice of applying a sliding scale to corporations. But I hold no brief for any corporations except the railroads, and to them I want to address the principal part of my observations.

I think, however, I should say in a preliminary way, that it seems to be tolerably well settled that corporations should be subjected to a flat rate of income taxation rather than to a sliding scale. I do not know anybody who has written authoritatively upon the subject who has reached any different conclusion. The fact that that is a sound basis for taxation is reflected in the experience of most of the countries that have tried out income taxes. We have never had here in the United States, so far as I know, any income tax except one which put a flat rate upon corporate income. And we were told here yesterday by Mr. Parker, I think it was, that in Great Britain they have that same system.

There may have been in the history of the country some States which have tried a different plan of taxation, although I do not happen to be advised about it at the moment.

And the reasons why that has been considered perfectly sound have been stated here. After all, what is sought, as I understand it, of an income tax, is to impose it in proportion to the ability to pay.

Now, a corporation, as everybody knows, is no more than an aggregation of individuals who have pooled their resources and are seeking to carry on business in that combined or pooled or coordinated fashion. The purpose of the corporation is to pay its expenses, to meet its fixed obligations and to distribute the profits. Now, it is manifestly impossible to find out just what is the ability of the stockholders, who are the owners of the corporation, to pay without a consideration also of their sources of income.

The plan suggested here of making a sliding scale in the case of corporate income would ignore, as I see it, would entirely ignore all sources of income which may appertain to the particular stockholders and put a heavy penalty upon those who may be so unfortunate as to be stockholders in a relatively large corporation.

Take this illustration, which is a very simple one, and which was mentioned, I think, by Mr. Parker, and I would like to apply it a little bit:

Let us say we have 10 men who put \$1,000 each into a relatively small corporation, having therefore a capital of \$10,000. It may be that that is a very prosperous corporation, although a small one, and it may have at the close of the year's business a net income for distribution to stockholders of \$10,000. Now, when that comes to be distributed in the form of a dividend, each of those stockholders would get \$1,000. Under this plan, which provides a relatively small tax upon small corporations, there would be deducted from that \$1,000, in the case I have cited, say, 10 percent, the lowest figure in the scale, and each one would receive therefore \$900 as a result of his investment in that small corporation.

Now, if we have 1,000 men who put \$1,000 into a corporation, with a capital stock of \$1,000,000, they might have such a business experience as would result at the end of the year in their having \$100,000 in the way of income, and that \$100,000 would be distributed among the 1,000 stockholders, and each one of them would receive \$100 each.

This plan here would provide that a much higher rate of taxation would be imposed upon the 1,000 men who have pooled their resources than upon the 10 men who have pooled their resources, although the contribution of each man is precisely the same. And if we assume that the rate would be 15 percent in that case, you would distribute then to each of the stockholders in the larger corporation \$85, or a 15-percent reduction, rather than \$900, at a 10-percent reduction.

That would be without any reference whatsoever to income which those stockholders might have from other sources. So that merely because men have seen proper to put their earnings or their investments into relatively large corporations, although their own contribution may be comparatively small, a system of a sliding, progressive, graduated tax upon income penalizes the person who sees proper to put his investment into this large corporation.

That is the fundamental objection to a sliding scale applied to corporations generally. And, as I say, if time permitted and your patience would allow, I could cite to the committee the opinion of many expert students on that question who have deliberately reached

the conclusion that it is unwise to have anything else for corporate income excepting a fixed flat scale.

And, as was pointed out by the previous witness, in our case it would be larger than the average income, upon individuals, for the privilege of doing business as a corporation.

I made those general observations with reference to the whole plan of putting a progressive, sliding scale upon corporations.

But, as I say, my principal purpose in appearing here is to make some comment upon the manifest injustice, as we see it, of applying such sort of a sliding scale to railroad corporations.

Now, these corporations are public-service companies, doing a public service, under very strict regulation. Gentlemen, it has been the settled policy of this country for 2 decades that the public interest demands that railroads should be consolidated into a comparatively small number of large corporations. It has been thought that the solution of the railroad problem would be measurably solved, if there could be eliminated so many small corporations and the railroad business carried on by large corporations.

Now, the law has been written so that that is favored. Indeed, the law has been so written that it is compulsory, to a certain extent, that railroads should consolidate into large corporations.

I should like to call your attention to the fact that the present Interstate Commerce Act, which was passed in 1920, which is commonly known as the Transportation Act, provides that it shall be the duty of the Interstate Commerce Commission to do what they can to require the railroads to be combined into a comparatively small number of relatively large railroads. I think you are all familiar with that history. I do not need to recite it to you.

The law provides that the Interstate Commerce Commission shall investigate the railroad situation and shall bring forward a plan, the purpose of which will be to consolidate the railroads of the country, as I have said, into this small number of systems. And they have gone along with that plan for 15 years, I am safe in saying. After the enactment of the Transportation Act, 1920, they employed Prof. William Z. Ripley, who was a professor of transportation at Harvard University and a well-known expert upon this phase of the matter, and asked him to bring forward a plan which would combine all the railroads of the country into some 18 or 19 systems. And Professor Ripley, after a careful study, did bring forward such a plan. And the Interstate Commerce Commission, modifying it in some respects, adopted a tentative program for the consolidation of the railroads into 19 railroad systems, and then hearings were had all over the country, and ultimately a final plan was adopted by the Interstate Commerce Commission providing for these 19 systems.

Now, that is the settled policy of the country. That policy has been expressed by every public agency which has to do with the railroad question.

The lamented Senator Cummins, who had a great deal to do with writing the Transportation Act, 1920, in public addresses, in reports to Congress, and in speeches on the floor of the Senate, pointed out the importance and indeed the necessity for some kind of rational system of consolidation.

I think every President of the United States since that time has referred in some way or other to the advisability of having the railroads consolidated. I am quite sure that Mr. Coolidge, when he was

President of the United States, never made an annual message to Congress in which he did not refer, with emphasis, to the importance of consolidating the railroads of the country into a few systems. His successor, Mr. Hoover, whenever he mentioned the subject, which was two or three times during his term, also spoke about the importance and necessity of consolidating the railroads.

The present distinguished occupant of the White House, in his notable address which is sometimes referred to as his Salt Lake City speech, which was delivered prior to his election to the Presidency, stated—I do not quote the exact language, but I quote the substance—that one of the most important things to which he expected to address himself, if he should be elected to the office, was toward facilitating the consolidation of the railroads into a comparatively small number of systems.

My notes here show, if time permitted, reference to statements which have been made by Mr. Walker D. Hines, who was one time Federal Administrator of Railroads during the period of Federal control, statements which have been made by a National Transportation Conference, headed by ex-President Coolidge and of which Governor Smith was a very important member, Mr. Baruch was a very important member, and Mr. Howell, of Atlanta, was a member, in which they recommended as a partial solution of the railroad problem the importance of consolidating the railroads.

The present distinguished Federal Coordinator of Transportation in his several reports to Congress, two of which are printed as congressional documents, one as a House document and one as a Senate document, has reiterated what has been said by all of his distinguished predecessors upon this subject, and advocates some kind of legislation which will produce a more rapid consolidation of the railroads. And he goes so far as to advocate a bill which would permit the Interstate Commerce Commission to compel railroads to consolidate, when in special cases it was deemed to be the proper thing to do.

So that we have here the curious situation, it seems to me, of having it the settled policy of the country, as indicated by the legislation in Congress, by the messages of the President, by the declaration of the students of the problem, and by reports made from official sources, that it is desirable that the railroads should be as large as possible, on the one hand, and on the other hand a suggestion that if they are thus combined into these relatively large systems, they should be taxed at a greater rate than if they remain unconsolidated and in a smaller form.

I think it is quite difficult to reconcile those two policies. I say that with all deference to those who may advocate higher rates of income tax upon large net incomes. It is difficult to reconcile the application of that principle to railroads, while at the same time it is the settled policy of the country that it is in the public interest that they should be much larger than they are.

It has been said—and I am not here talking as an economist because I am not one—but it has been said that one of the vices of the present time is bigness, and it might be perfectly proper if through some act of Congress so much bigness in business could be broken up into smaller units. Without undertaking to argue the question, which I am not indeed competent to argue, it is perfectly clear that that principle will not apply to railroads because nobody would suppose that it would be in the public interest for the New York Central System, for

instance, to be broken up into its integral parts, as it once was, I think, and have one line from New York to Albany, and another from Albany to Buffalo, and another from Buffalo to Cleveland, and another from Cleveland to Chicago, and so on throughout the country. That would not facilitate the commerce of the country. It would clearly not be in the public interest.

Now, for the information of the committee, and with your permission, Mr. Chairman, I should like to have the privilege of filing with the committee—and I shall not take time to read it, of course—a table which will show just what has been the net income of class I railroads of the United States for the period from 1929 to 1934, inclusive.

The CHAIRMAN. Without objection, you will be granted that permission.

(The statement referred to is as follows:)

Income account—railways of class I—United States, calendar years 1929 to 1934

[Figures in millions of dollars]

Item	1929	1930	1931	1932	1933	1934
Average miles of road operated	241,583.85	242,185.61	242,175.83	241,519.24	240,624.00	239,051.47
Total operating revenues.....	\$6,279.5	\$5,281.2	\$4,183.3	\$3,126.7	\$3,095.4	\$3,271.4
Total operating expenses.....	4,506.0	3,930.9	3,223.6	2,403.4	2,249.2	2,441.8
Operating ratio, percent.....	71.76	74.43	76.97	76.87	72.66	74.64
Net operating revenue.....	1,773.5	1,350.3	964.7	723.3	846.2	829.6
Railway tax accruals.....	396.7	348.6	303.5	275.1	249.6	239.5
Uncollectible railway revenues.....	1.2	1.0	0.9	1.0	1.2	1.1
Equipment rents, net debit.....	95.4	99.8	99.2	85.1	85.0	89.8
Joint facility rents, net debit.....	28.5	32.0	35.5	35.8	36.1	36.5
Net railway operating income	1,251.7	868.0	525.6	326.3	474.3	462.7
Rate of return on property investment, percent.....	4.84	3.30	2.00	1.25	1.83	1.77
Other income.....	359.7	358.9	303.6	224.5	211.0	182.4
Total income.....	1,611.4	1,227.8	831.2	550.8	685.3	645.1
Interest on funded debt.....	498.6	496.3	500.2	500.0	498.3	522.9
Interest on unfunded debt.....	12.7	12.5	17.8	24.6	26.2	
Rent for leased roads.....	177.4	170.6	150.7	138.0	150.2	
Other deductions.....	25.9	24.5	27.8	27.4	16.5	20.8
Total deductions.....	714.6	703.9	696.5	690.0	691.2	677.4
Net income.....	896.8	523.9	134.7	139.2	5.9	32.3

Italics denote deficit.

Mr. FLETCHER. I will just say in reference to that, whereas in 1929 the net income of the railroads of the United States, class I railroads, amounted to \$896,000,000, that figure has fallen to where in 1934, there was a deficit of \$32,300,000. That means, of course, that they have failed by \$32,300,000 to pay their operating expenses and their fixed charges.

The year of the greatest deficit, however, was 1932. So that there has been an improvement in railroad conditions from 1932 to 1934, 1933 being a better year than 1932, and 1934 being a better year than 1932, but not quite as good a year as 1933.

I mention that to show that the railroads, if that is a factor to be considered, are in not a very good condition to stand a heavy increase in taxes.

I should also like the privilege of filing—I do not know whether it should be copied into the record or not because I am anxious to contribute to the theory of economy—but I would like to file with

the committee a statement showing the number of systems operated at a loss and the number of railroad systems operated at a profit, Mr. Chairman, in the period from 1929 to 1934.

(The statement referred to is as follows:)

Net income or net deficit after fixed charges, railways of class I, United States

Year	Number	Miles	Percent of class I mileage	Net deficit and net income
Systems operating at a loss:				
1929.....	20	10, 180. 06	4. 21	\$10, 641, 670
1930.....	36	39, 089. 37	16. 14	41, 899, 544
1931.....	64	101, 995. 67	42. 12	102, 934, 535
1932.....	86	163, 847. 46	67. 84	247, 390, 944
1933.....	71	138, 617. 30	57. 61	162, 602, 609
1934.....	74	146, 544. 01	61. 30	165, 642, 722
Systems operating at a profit:				
1929.....	98	231, 318. 39	95. 75	907, 448, 281
1930.....	83	202, 983. 84	83. 82	565, 717, 016
1931.....	54	140, 094. 76	57. 85	237, 696, 446
1932.....	31	77, 277. 09	32. 00	108, 187, 125
1933.....	46	101, 372. 17	42. 13	146, 739, 672
1934.....	43	91, 879. 04	38. 43	123, 391, 540
Total, all systems: ¹				
1929.....	120	241, 583. 85	100. 00	896, 806, 611
1930.....	120	242, 158. 61	100. 00	523, 907, 472
1931.....	119	242, 175. 83	100. 00	134, 761, 911
1932.....	119	241, 519. 24	100. 00	139, 203, 819
1933.....	120	240, 617. 89	100. 00	5, 862, 837
1934.....	120	239, 051. 47	100. 00	32, 251, 182

¹ "Total all systems" includes a few companies reporting no income or deficit.

Italics denote deficit.

Of course, if we were to concede that all of these railroads operated at a loss would not share in the recovery which we are all hoping will come soon, this question would be academic, perhaps. But here is a considerable number of railroads who did operate at a profit in 1934, and who would be seriously affected by the increase in taxes which are here proposed.

There are 43 railroads——

Mr. VINSON. Of course, the railroads which operated at a loss, if they continued also to operate at a loss would not be so affected.

Mr. FLETCHER. It would be purely academic as to those railroads.

By the way, may I say, Mr. Chairman, that the rule adopted yesterday on the motion of some member that you should wait until witnesses get through with their statement does not apply to me because I have no written statement, and I am perfectly willing to be interrupted at any time.

Mr. VINSON. When was this Harvard professor employed to make this study?

Mr. FLETCHER. 1920.

Mr. VINSON. How long did he serve?

Mr. FLETCHER. I think Professor Ripley was in that work trying to consolidate the railroads for 4 or 5 years.

Mr. VINSON. We had a "brain truster" then?

Mr. FLETCHER. He was an extraordinary man. I know of nobody whom I more greatly admire.

Mr. VINSON. I am not at all critical of him.

Mr. FLETCHER. I understand. I do not belong to that class that thinks a man because he is a college man at one time is not a man of sound judgment. Some of them are. I never happened to be one but I wish I had.

I would also like to have the privilege of calling to the attention of the committee just how this proposed plan would affect particular railroads. I think that might be of value.

The CHAIRMAN. Do you wish that to go in the record?

Mr. FLETCHER. I wish that to go in the record.

The CHAIRMAN. Without objection, it is so ordered.

Mr. FLETCHER. Here is a statement that I have, based on 1934 operations, in which it is indicated by the names of railroads, just what the situation is. Some of you gentlemen may be interested, not personally, of course, but because the railroad serves a section of the country that you are interested in. And this shows the amount of Federal income tax which was paid in 1934 by this group of railroads, and how they would be affected by a plan or scale ranging from a minimum of 10 percent up to a maximum of 17½ percent.

(Table referred to is as follows:)

Estimated Federal income tax at rates proposed June 25, 1935, for those class I carriers paying Federal income taxes in 1934

Road	Estimated income on which tax was paid ¹	Federal income tax accrued 1934	Estimated Federal tax at proposed rates	
			Rate	Tax
Chesapeake & Ohio.....	\$32,182,000	\$4,425,000	17½	\$5,632,000
Norfolk & Western.....	19,818,000	2,725,000	17	3,369,000
Pennsylvania R. R.....	19,392,000	2,666,352	17	3,297,000
Reading.....	7,035,000	967,315	17	1,196,000
Union Pacific.....	6,565,000	902,681	17	1,116,000
Delaware, Lackawanna & Western.....	3,019,000	415,142	17	513,000
Pittsburgh & Lake Erie.....	2,729,000	375,241	17	464,000
Virginian.....	2,421,000	332,898	17	412,000
Duluth, Missabe & Northern.....	1,433,000	196,980	17	244,000
Detroit, Toledo & Ironton.....	1,391,000	191,258	17	236,000
New York, New Haven & Hartford.....	1,309,000	180,000	17	223,000
Wheeling & Lake Erie.....	1,184,000	162,774	17	201,000
Cincinnati, New Orleans & Texas Pacific.....	994,000	137,000	16	159,000
Bangor & Aroostook.....	995,000	136,943	16	159,000
Montour.....	882,000	121,340	16	141,000
Detroit & Toledo Shore Line.....	868,000	119,412	16	139,000
Atchison, Topeka & Santa Fe.....	865,000	119,000	16	138,000
Pennsylvania-Reading Seashore Lines.....	782,000	107,490	16	125,000
Cambria & Indiana.....	625,000	85,946	16	100,000
Oregon Short Line.....	611,000	84,000	16	98,000
Baltimore & Ohio.....	563,000	77,373	16	90,000
Bessemer & Lake Erie.....	447,000	61,500	16	72,000
New York, Ontario & Western.....	415,000	57,000	16	66,000
Texas & Pacific.....	400,000	55,000	16	64,000
Lake Superior & Ishpeming.....	319,000	43,815	16	51,000
Boston & Maine.....	263,000	36,225	15	39,000
Monongahela.....	257,000	35,385	15	39,000
Louisiana & Arkansas.....	240,000	33,000	15	36,000
Toledo, Peoria & Western.....	221,000	30,346	15	33,000
St. Joseph & Grand Island.....	202,000	27,814	15	30,000
Clinchfield.....	200,000	27,545	15	30,000
Kansas, Oklahoma & Gulf.....	160,000	22,000	15	24,000
Chicago & Illinois Midland.....	139,000	19,092	15	21,000
Lehigh & Hudson River.....	120,000	16,447	15	18,000
Erie (including Chicago & Erie).....	96,000	13,210	14	13,400
Lehigh & New England.....	77,000	10,613	14	10,800
Columbus & Greenville.....	65,000	8,962	14	9,100
Nevada Northern.....	44,000	6,100	14	6,200
Tennessee Central.....	37,000	5,096	13	4,800
Charleston & Western Carolina.....	33,000	4,505	13	4,300
St. Louis-Southwestern Lines.....	29,000	4,025	13	3,800
Richmond, Fredericksburg & Potomac.....	28,000	3,900	13	3,600
Elgin, Joliet & Eastern.....	15,000	2,060	13	2,000
New York Connecting.....	7,000	950	12	840
Missouri-Illinois.....	6,000	870	12	720
Lehigh Valley.....	1,000	126	10	100
Utah.....	1,000	116	10	100
Total.....		15,054,847		18,634,760
Percent increase over tax of 1934.....				23.8

¹ Estimated by assuming Federal tax accruals to have been 13¾ percent of income.

I should say that this table was made up before I heard the discussion by the committee on yesterday and today. It is put up, Mr. Chairman, on what I understand to be a statement from the Chairman of the Senate Committee on Finance, published in the newspapers, indicating that there was some favorable plan for a scale ranging from 10 percent as a minimum to 17½ percent as a maximum, and that is the basis on which this is made up.

And that shows, gentlemen, that there is one railroad in the United States which, under this plan, would have its taxes increased on the basis of 1934 earnings by \$1,200,000.

Mr. HILL. Would that be the difference between 13¾ and 17½?

Mr. FLETCHER. That would be the difference between 13¾ and 17½.

Mr. HILL. You do not get the consolidated returns there?

Mr. FLETCHER. In that particular case I think not. The consolidated returns, Mr. Hill, as you well know, apply only to railroads with a 2-percent penalty. I guess that is outside of the scope of this subject here, but if I am not too much out of order, I would like to get that penalty taken off.

Mr. HILL. I understand that the railroads affiliated with them have the privilege of making consolidated returns, but are required to pay for the privilege an additional 2 percent tax over the ordinary corporate rate.

Mr. FLETCHER. That is right, your honor.

Mr. CROWTHER. And it is limited to railroads?

Mr. FLETCHER. It is limited to railroads.

Mr. VINSON. Taking the 13¾ percent as a basis for this or 15¾?

Mr. FLETCHER. Thirteen and three-quarters. I have contrasted what they did pay on a 13¾ basis with what they would pay on a 17½ basis in the case of that one railroad.

Mr. VINSON. And that railroad did not make a consolidated return?

Mr. FLETCHER. Apparently not. I say "apparently not" because I got these figures from the Bureau of Railway Economics, which is maintained by the Association with which I am connected, and they gave this as the income tax accrual.

Mr. VINSON. What railroad was it?

Mr. FLETCHER. The Chesapeake & Ohio. The Chesapeake & Ohio is the road which would be affected more than any other railroad. They do have some affiliates, as we all know, but I am not sure whether their relations to the other railroads in the affiliated group are such as to permit them to make a consolidated return. You have to look precisely at the language of the statute and to know precisely what that relationship is, to answer that question.

The second railroad is the Norfolk & Western, the second in point of cost, I mean. And that would mean an increase in the case of that railroad of \$600,000. The Pennsylvania is third, and running on down.

There are very few railroads, class I railroads, which would be benefited by the fact that the bottom of the scale runs below 13¾. There are just a few, relatively small railroads, which would be benefited, and they would be benefited in very small amounts. One railroad would save \$16, one railroad would save \$26, one railroad would save \$150, and so on.

So that the class of railroads which I have the honor to represent would not be benefited.

Mr. HILL. Is it the class I railroads about which you are talking now?

Mr. FLETCHER. Only class I railroads. That is all I have any information about and all for whom I speak.

I have also had a statement prepared showing what would be the effect upon these railroads if we do have to some extent at least a return of prosperity.

I do not know what year should really be taken as a normal year, but I have had an idea that if we get back to the 1930 basis, we would be doing pretty well. I can well remember in 1930, when all of us thought it was a terrible year but now I think we would look back with a great deal of confidence and longing to 1930 conditions. So that I have had this made up on the basis of 1930 railroad earnings and tried to show by systems of railroad, railroad lines, what would be the effect of applying the 13 $\frac{3}{4}$ percent to the net earnings in 1930, compared with what would be the result if you applied the scale suggested here.

Estimated Federal income taxes at present rate of 13 $\frac{3}{4}$ percent and at rates proposed based on taxable income of the calendar year 1930

[Railways of class I that accrued Federal income taxes in 1930]

Road	Estimated taxable income in 1930 ¹	Federal income tax at—		Increase over present rate	
		Present rate of 13 $\frac{3}{4}$ percent	Proposed rate		
			Rate	Tax	
				Amount	Percent
New England region:					
Bangor & Aroostook.....	\$1,655,000	\$227,563	17	\$281,350	\$53,787 23.6
Boston & Maine.....	5,995,000	811,938	17	1,003,850	191,912 23.6
Central Vermont.....	175,000	24,063	15	26,250	2,187 9.1
Maine Central.....	761,000	104,638	16	121,760	17,122 16.4
New York Connecting.....	29,000	3,988	13	3,770	² 218 2 5.5
New York, New Haven & Hartford.	10,338,000	1,421,475	17	1,757,460	335,985 23.6
Rutland.....	260,000	35,750	15	39,000	3,250 9.1
Great Lakes region:					
Ann Arbor.....	141,000	19,388	15	21,150	1,762 9.1
Delaware & Hudson.....	2,183,000	300,163	17	371,110	70,947 23.6
Delaware, Lackawanna & Western	7,993,000	1,099,038	17	1,358,810	259,772 23.6
Detroit & Toledo Shore Line.....	320,000	44,000	16	51,200	7,200 16.4
Erie.....	79,000	10,863	14	11,060	197 1.8
Lehigh & Hudson River.....	469,000	64,488	16	75,040	10,552 16.4
Lehigh & New England.....	238,000	32,725	15	35,700	2,975 9.1
Monongahela.....	505,000	69,438	16	80,800	11,362 16.4
New York Central.....	15,074,000	2,072,675	17	2,562,580	489,905 23.6
New York, Susquehanna & Western.....	742	102	10	74	² 28 2 27.3
Pittsburgh & Lake Erie.....	6,798,000	934,725	17	1,155,660	220,935 23.6
Wabash.....	297,000	40,838	15	44,550	3,712 9.1
Central eastern region:					
Akron, Canton & Youngstown.....	63,000	8,663	14	8,820	157 1.8
Baltimore & Ohio.....	10,896,000	1,498,200	17	1,852,320	354,120 23.6
Bessemer & Lake Erie.....	3,464,000	476,300	17	588,880	112,580 23.6
Central Railroad of New Jersey.....	1,979,000	272,113	17	336,430	64,317 23.6
Chicago & Illinois Midland.....	9,167	1,260	12	1,100	² 160 2 12.7
Chicago, Indianapolis & Louisville.	63,000	8,663	14	8,820	157 1.8
Elgin, Joliet & Eastern.....	260,000	35,750	15	39,000	3,250 9.1
Illinois Terminal.....	467,000	64,213	16	74,720	10,507 16.4
Long Island.....	9,683,000	1,331,413	17	1,646,110	314,697 23.6
Missouri-Illinois.....	31,000	4,263	13	4,030	² 233 2 5.5
Pennsylvania.....	61,606,000	8,470,825	17 $\frac{1}{2}$	10,781,050	2,310,225 27.3
West Jersey & Seashore.....	202,000	227,775	15	30,300	2,525 9.1
Western Maryland.....	2,142,000	294,525	17	364,140	69,615 23.6
Wheeling & Lake Erie.....	2,712,000	372,900	17	461,040	88,140 23.6
Poconontas region:					
Chesapeake & Ohio.....	34,950,000	4,805,625	17 $\frac{1}{2}$	6,116,250	1,310,625 27.3
Norfolk & Western.....	32,083,000	4,411,413	17 $\frac{1}{2}$	5,614,525	1,203,112 27.3
Richmond, Fredericksburg & Potomac.....	1,153,000	158,538	17	196,010	37,472 23.6
Virginian.....	4,380,000	602,250	17	744,600	142,350 23.6

¹ Based on Federal income tax accruals reported for 1930.

² Denotes decrease.

Estimated Federal income taxes at present rate of 13¾ percent and at rates proposed based on taxable income of the calendar year 1930—Continued

Road	Estimated taxable income in 1930	Federal income tax at—		Increase over present rate		
		Present rate of 13¾ percent	Proposed rate		Amount	Percent
			Rate	Tax		
Southern region:						
Alabama Great Southern.....	1,000,000	137,500	17	170,000	32,500	23.6
Atlanta & West Point.....	37,000	5,088	13	4,810	² 278	² 5.5
Atlantic Coast Line.....	1,722,000	236,775	17	292,740	55,965	23.6
Charleston & Western Carolina.....	57,000	7,838	14	7,980	142	1.8
Cincinnati, New Orleans & Texas Pacific.....	1,998,000	274,725	17	339,660	64,935	23.6
Clinchfield.....	1,719,000	240,488	17	297,330	56,842	23.6
Columbus & Greenville.....	111,000	15,263	15	16,650	1,387	9.1
Georgia, Southern & Florida.....	95,000	13,093	14	13,300	237	1.8
Louisville & Nashville.....	2,999,000	412,363	17	509,830	97,467	23.6
Mississippi Central.....	11,767	1,618	12	1,412	² 206	² 12.7
Nashville, Chattanooga & St. Louis.....	666,000	91,575	16	106,560	14,985	16.4
New Orleans & Northeastern.....	21,000	2,888	13	2,730	² 158	² 5.5
Southern Railway.....	2,579,000	354,613	17	438,430	83,817	23.6
Tennessee Central.....	131,000	18,013	15	19,650	1,637	9.1
Western Railway of Alabama.....	326,000	44,825	16	52,169	7,335	16.4
Northwestern region:						
Chicago & North Western.....	2,050,000	281,875	17	348,500	66,625	23.6
Chicago Great Western.....	292,000	40,150	15	43,800	3,650	9.1
Duluth, Missabe & Northern.....	5,988,000	823,350	17	1,017,960	194,610	23.6
Great Northern.....	4,167,000	572,963	17	708,390	135,427	23.6
Green Bay & Western.....	239,000	32,863	15	35,850	2,987	9.1
Lake Superior & Ishpeming.....	642,000	88,275	16	102,720	14,445	16.4
Northern Pacific.....	833,000	114,538	16	133,250	18,712	16.4
Central western region:						
Alton.....	525,000	72,188	16	84,000	11,812	16.4
Atchison, Topeka & Santa Fe.....	37,381,000	5,139,888	17½	6,541,675	1,401,787	27.3
Chicago, Burlington & Quincy.....	20,395,000	2,804,313	17½	3,569,125	764,812	27.3
Chicago, Rock Island & Gulf.....	486,000	66,825	16	77,760	10,935	16.4
Chicago, Rock Island & Pacific.....	4,353,000	598,538	17	740,010	141,472	23.6
Denver & Rio Grande Western.....	813,000	111,788	16	130,080	18,292	16.4
Fort Worth & Denver City.....	967,000	132,963	16	154,720	21,757	16.4
Los Angeles & Salt Lake.....	120,000	16,500	15	18,000	1,500	9.1
Nevada Northern.....	199,000	27,363	15	29,850	2,487	9.1
Oregon Short Line.....	3,224,000	443,300	17	548,080	104,780	23.6
St. Joseph & Grand Island.....	598,000	82,225	16	95,680	13,455	16.4
Southern Pacific Co., Pacific Lines.....	7,120,000	979,000	17	1,210,400	231,400	23.6
Toledo, Peoria & Western.....	274,000	37,675	15	41,190	3,425	9.1
Union Pacific.....	23,258,000	3,197,975	17½	4,070,150	872,175	27.3
Utah Railway.....	56,000	7,700	14	7,840	140	1.8
Southwestern region:						
Gulf, Colorado & Santa Fe.....	346,000	47,575	16	55,360	7,785	16.4
Kansas City Southern.....	504,000	69,300	16	80,640	11,340	16.4
Kansas, Oklahoma & Gulf.....	817,000	112,338	16	130,720	18,382	16.4
Louisiana & Arkansas.....	63,900	8,663	14	8,820	157	1.8
Midland Valley.....	333,000	45,788	16	52,280	6,492	16.4
Missouri-Kansas-Texas Lines.....	4,983,000	685,163	17	847,110	161,947	23.6
Missouri Pacific.....	3,458,000	475,475	17	587,860	112,385	23.6
St. Louis-San Francisco.....	164,000	22,550	15	24,600	2,050	9.1
Texarkana & Fort Smith.....	224,000	30,800	15	33,600	2,800	9.1
Texas & New Orleans.....	4,754,000	653,675	17	808,180	154,505	23.6
Texas & Pacific.....	3,193,000	439,038	17	542,810	103,772	23.6
Wichita Falls & Southern.....	54,000	7,425	14	7,560	135	1.8
Total.....		50,289,227		63,031,071	12,741,844	24.5

² Denotes decrease.

Mr. HILL. Judge, generally speaking, these class I railroads do make affiliated returns, do they not?

Mr. FLETCHER. Some of them do and some of them do not. It depends entirely upon the set-up.

Mr. HILL. Will it make any difference whether you take 13¾ or 15¾ percent for your comparison?

Mr. FLETCHER. It does, and you must sit down with a pencil and figure out how your affiliates would come out. If they have been relatively unprofitable, so that it means reductions of the amount of

earnings by the parent company, you might be able to apply 15 $\frac{3}{4}$ economically in computing the tax, and in other cases, it would be quite different.

Mr. VINSON. As I understand it, they had to make an election.

Mr. FLETCHER. They do.

Mr. VINSON. After the passage of the act.

Mr. FLETCHER. I do not think they have to make an election once and for all, Mr. Vinson, but make it each year, I take it.

Mr. VINSON. My recollection is that they had the right to make the election for the purpose of the return, and after that they were bound by it.

Mr. FLETCHER. I will not argue it but I do not think so. Would it be out of order if I asked one of our friends here, who knows the detail, to answer that?

Mr. VINSON. We would like to know.

Mr. FLETCHER. Is Mr. Parker here?

Mr. STAM. They have to make an election, and then they have got to get permission from the commission to make a change.

Mr. VINSON. The reason I remembered it was that we had a consolidated return act prior to the last one.

Mr. FLETCHER. Yes, sir.

Mr. VINSON. And I know that the point came up, when we were considering the last one, that they would again have the opportunity to elect. As I recall it, the penalty was 1 percent, originally, was it not?

Mr. FLETCHER. It used to be 1 percent; yes, sir.

Mr. VINSON. And it was increased to 2 percent in the 1934 act.

Mr. FLETCHER. The history of it was, as I recall it, that this committee and the House declined to make an exception of these railroads. They thought that they ought to go along without being allowed to file consolidated returns. That was the view of this committee, and in that form the bill passed the House, but in the Senate the committee changed it to 1 percent, and when it came to conference it was finally ironed out in the conference so that a 2-percent penalty was imposed.

Mr. VINSON. The first time it was 1 percent, because we could not have gone above 1 percent in the conference.

Mr. FLETCHER. I am not familiar with that.

Mr. VINSON. In the first act it was 1 percent, I feel certain. In the last act the House passed it without the privilege of making a consolidated return.

Mr. FLETCHER. That is right.

The first act which you speak of applied to all corporations.

Mr. VINSON. That is right.

Mr. FLETCHER. The reason why, you will remember, the railroads were allowed to make consolidated returns was not on account of anything here, but on account of the fact that in many States they were required to maintain separate corporations by law. Down in Texas you have to have a Texas corporation, you know, and the same is true of many other States in the Union, and there was appeal to the Congress that it would be unfair to deny them the privilege of making separate returns when they were compelled by law to be separate.

Mr. CROWTHER. I think Mr. Vinson is right that the law in the first place carried a penalty.

Mr. FLETCHER. The old law.

Mr. CROWTHER. When we discussed the matter of continuing that privilege of filing consolidated returns, there was some feeling against it, and there was a compromise in the committee to continue it at 2 percent.

Mr. VINSON. My recollection is the very able gentleman from New York, Mr. Crowther, took the position that the 2 percent increase was better than total abolition.

Mr. CROWTHER. That is what I thought at the time.

Mr. FLETCHER. That was better, I think.

Mr. CROWTHER. Do you apprehend that in connection with this graded tax, that there will still be carried a 2-percent penalty for making a consolidated return?

Mr. FLETCHER. I have heard no suggestion to the contrary.

Mr. CROWTHER. I just mention that in passing.

Mr. FLETCHER. If the Congress could come to the conclusion that the penalty for making consolidated returns should be abolished, it would be very helpful along this line, of course, but I am not arguing that now.

Mr. VINSON. Could you tell us what railroads make consolidated returns?

Mr. FLETCHER. I could not, Mr. Vinson. I would have to make an examination, which I have not made as to that.

Mr. VINSON. I think that that would be a very illuminating picture as to the benefits of consolidated returns and as to the 2-percent penalty.

Mr. FLETCHER. I think I can develop that and file it, if you would like to have us do it.

Mr. VINSON. I would be very glad to have you do it.

Mr. FLETCHER. I think we can do it without too much trouble.

Mr. CROWTHER. I imagine every railroad did it, if it was found advantageous.

Mr. FLETCHER. Take the Norfolk & Western, if I may use it as an illustration, which is second on the list I mentioned a while ago, and my general impression is that they have no affiliates.

Mr. VINSON. You made the statement a moment ago that the Chesapeake & Ohio did not make a consolidated return.

Mr. FLETCHER. Apparently not, from the figures, but I can examine it and be certain.

Mr. CROWTHER. I think he qualified that by the statement that their relationships were such under the law that they could not take advantage of it.

Mr. FLETCHER. That is the substance of it, although I will look into it and advise you.

The point I want to make, however, is that there ought not to be and there cannot consistently be a policy of requiring the railroads to consolidate into large systems and at the same time penalize them by putting this penalty upon them due to the size of their corporations.

I take it that there is no question in the mind of the committee as to the fact that constitutional limitations make an exception in the case of the railroads, if, after consideration, they should come to the conclusion that this was the fair thing to do.

We come, then, to the question of classification, which has been before the courts for a great many years, and with which all lawyers

are familiar. I happen to have before me here a list of cases which I think support the view unquestionably that in view of the public character of the business and the policy which Congress has adopted of requiring large railroads in the interest of economical transportation, that that would be of itself a sufficient basis for making a classification which would except railroads from the general run.

Mr. KNUTSON. Mr. Fletcher, how many class A railroads are now in receivership or in process of reorganization?

Mr. FLETCHER. Class I railroads, you meant to say?

Mr. KNUTSON. Yes, sir.

Mr. FLETCHER. I can name them, if you will let me do so, without having them in mind. There is the Frisco—I am talking about the more important ones now—there is the Missouri Pacific and its affiliates; Rock Island; Chicago & Great Western; the Chicago & North Western; Chicago, Milwaukee, St. Paul & Pacific; the Monon; the Central of Georgia; Chicago & Eastern Illinois. I should say the mileage amounted to about 60,000. It was 42,000 until the last two large receiverships on the part of the North Western and the Milwaukee.

Mr. KNUTSON. Have you a table showing the decline in operating expenses, as well as the decline in receipts?

Mr. FLETCHER. That is shown in the table that I am filing with the committee.

Mr. KNUTSON. How did the decline in operating expenses compare with the decline in receipts?

Mr. FLETCHER. About the same.

Mr. KNUTSON. You mean it is the same?

Mr. FLETCHER. About the same. It is a rather remarkable statement, but that is what happened. The gross receipts of the railroads are now about 50 percent of what they were in the peak period, and the operating expenses are about 50 percent of what they were in the peak period. It is surprising. Of course, there are two ways of looking at it, Mr. Congressman. One of them is to say that it would be more to the public interest to have continued more men at work. I can understand how that might be. On the other hand, it is in a certain sense a tribute to the closeness of the supervision and the efficiency of the railroads that they have been thus able to reduce their operating expenses, because they could not reduce their overhead anything like as much as they could their actual operating expenses.

Mr. HILL. Judge Fletcher, do you have citations of cases there showing that it would be legal to make an exception of the railroads?

Mr. FLETCHER. I have them here, Mr. Hill. I always hesitate to present such cases. Shall I read them or file them?

Mr. HILL. You can file them.

Mr. FLETCHER. I will file with the committee quotations from the leading cases of *Bell's Gap Railroad Co. v. Commonwealth of Pennsylvania* (134 U. S. 232); the familiar case of *Flint v. Stone Tracy Company* (220 U. S. 107); and *Billings v. United States* (232 U. S. 261). Those cases would seem to me to be quite apposite on the point we have under consideration.

The CHAIRMAN. Without objection, the last statement referred to by the witness, as well as the next to the last statement, may be filed.

Mr. FLETCHER. I think that is all, Mr. Chairman.

The CHAIRMAN. We thank you for your appearance and the information you have given the committee.

(The statement referred to above is as follows:)

Bell's Gap R. Co. v. Commonwealth of Pennsylvania (10 Sup. Ct. 533; 134 U. S. 232):

"The provision in the fourteenth amendment, that no State shall deny to any person within its jurisdiction the equal protection of the laws, was not intended to prevent a State from adjusting its system of taxation in all proper and reasonable ways. It may, if it chooses, exempt certain classes of property from any taxation at all, such as churches, libraries, and the property of charitable institutions. It may impose different specific taxes upon different trades and professions, and may vary the rates of excise upon various products; it may tax real estate and personal property in a different manner; it may tax visible property only, and not tax securities for payment of money; it may allow deductions for indebtedness, or not allow them. All such regulations, and those of like character, so long as they proceed within reasonable limits and general usage, are within the discretion of the State legislature, or the people of the State in framing their constitution. But clear and hostile discriminations against particular persons and classes, especially such as are of an unusual character, unknown to the practice of our governments, might be obnoxious to the constitutional prohibition. It would, however, be impracticable and unwise to attempt to lay down any general rule or definition on the subject that would include all cases. They must be decided as they arise. We think that we are safe in saying that the fourteenth amendment was not intended to compel the States to adopt an iron rule of equal taxation. If that were its proper construction, it would not only supersede all those constitutional provisions and laws of some of the States, whose object is to secure equality of taxation, and which are usually accompanied with qualifications deemed material, but it would render nugatory those discriminations which the best interests of society require; which are necessary for the encouragement of needed and useful industries, and the discouragement of intemperance and vice, and which every State, in one form or another, deems it expedient to adopt."

This case involved the constitutionality of a Pennsylvania statute which taxed bonds and other securities issued by corporations on their nominal instead of their actual value. It was alleged that this was a discrimination against the corporations and denied them the equal protection of the laws.

Flint v. Stone Tracy Co. (31 Sup. Ct. 342; 220 U. S. 107):

"In levying excise taxes the most ample authority has been recognized from the beginning to select some and omit other possible subjects of taxation, to select one calling and omit another, to tax one class of property and to forbear to tax another. For examples of such taxation see cases in the margin, decided in this Court, upholding the power.

"Many instances might be given where this Court has sustained the right of a State to select subjects of taxation, although as to them the fourteenth amendment imposes a limitation upon State legislatures, requiring that no person shall be denied the equal protection of the laws. See some of them noted in the margin."

This case involved an act of Congress which levied an excise tax upon the carrying on or the doing of business in a corporate capacity and exempting a similar business when carried on by a partnership or by a private individual. There were certain exceptions and the Court said with respect to them:

"As to the objections that certain organizations—labor, agricultural, and horticultural—fraternal and benevolent societies, loan and building associations, and those for religious, charitable, or educational purposes, are excepted from the operation of the law, we find nothing in them to invalidate the tax. As we have had frequent occasion to say, the decisions of this Court from an early date to the present time have emphasized the right of Congress to select the objects of excise taxation, and within the power to tax some and leave others untaxed must be included the right to make exemptions such as are found in this act."

Billings v. United States (34 Sup. Ct. 421; 232 U. S. 261):

"It has been conclusively determined that the requirement of uniformity which the Constitution imposes upon Congress in the levy of excise taxes is not an intrinsic uniformity, but merely a geographical one. *Flint v. Stone Tracy Co.* *supra*; *McCray v. United States* (195 U. S. 27, 49 L. ed. 78, 24 Sup. Ct. Rep. 769, 1 Ann. Cas. 561); *Knowlton v. Moore* (178 U. S. 41, 44 L. ed. 969, 20 Sup. Ct. Rep. 747). It is also settled beyond dispute that the Constitution is not self-destructive. In other words, that the powers which it confers on the one hand it does not immediately take away on the other; that is to say, that the authority to tax which is given in express terms is not limited or restricted by the subsequent provisions of the Constitution or the amendments thereto, especially by the due process clause of the fifth amendment. *McCray v. United States* (195

U. S. 27, 49 L. ed. 78, 24 Sup. Ct. Rep. 769, 1 Ann. Cas. 561), and authorities there cited."

This case involved a Federal excise tax which was levied upon the use of foreign-built yachts by American citizens and not upon American-built yachts. One of the grounds upon which it was attacked was its lack of uniformity.

The CHAIRMAN. Our next witness on the calendar is Howard B. Bishop.

STATEMENT OF HOWARD B. BISHOP, EASTON, PA., REPRESENTING STERLING PRODUCTS CO.

Mr. BISHOP. I am a small manufacturer and one who knows from first-hand information what it means to meet a pay roll every Saturday night and the difficulties of trying to operate a factory in a depression. I do not represent any group or faction, but I am trying to look at the country as a whole, for, after all, whatever is for the best interest of all is in the long run best for each of us. I want to congratulate each member of this committee on the way you have performed your duties on this important committee. There was a time when the people thought you had abdicated, but in more recent times they rejoice that you have stood by your guns and have won some decisive victories, just as David, in ancient times, with a small sling killed the giant Goliath and changed the course of human events, so you have in your hands the opportunity to use a small sling of the English language and kill the greatest monster the world has ever seen, a monster that is causing a loss of \$100,000,000 per day, or \$1,000,000 every 15 minutes. Is it not about time that something constructive is done about it? I want to present to you the Congressional Tax Plan, which looks upon taxes as a means to accomplish a purpose and not as an instrument to extract the last cent that can be taken from the people. After all, there is such a thing as killing the goose that lays the golden eggs. The idea of soaking some particular group is like the ancient Roman way of putting the Christians in the arena with the lions to make a spectacle. The Congressional Tax Plan is the means of putting the unemployed back to work in industry, of stopping the mounting tax burden for relief, and of once more bringing to our people a feeling of confidence and optimism which is so sadly lacking today.

I have a chart here which I would like to present to you, and I think it will show in a simple way some of the effects of government on the economic system. I am a chemical engineer, and I am accustomed to thinking of things on a flow sheet, and I have endeavored to present here a flow sheet showing the law of supply and demand and the effect of government on the economic system.

Mr. KNUTSON. What does your company produce, Mr. Bishop?

Mr. BISHOP. We manufacture chemicals which are used in the laundry industry. On this sheet we have the supply chamber, into which flow minerals, sun, air, and water, and labor, which go to make up everything we have and use. From this supply chamber it flows through the business pipe line, which is rather blue today, into the demand chamber, which is a sort of floating reservoir, and from there out into the life chamber, where we live and have our families, and schools and education, and then to death, depletion, and obsolescence, and waste. That is the cycle. Then we have flowing out of the life chamber a constant stream of labor supply, which makes up our farm and industrial labor. That completes the cycle. You have

flowing out of this supply chamber the national, county, State, and city taxes. One of the gentlemen here mentioned township taxes. I neglected to put that in. These together make up a tax in the amount of about \$20,000,000,000.

Mr. VINSON. How much?

Mr. BISHOP. \$20,000,000,000.

Mr. VINSON. You mean the total taxes paid in the United States?

Mr. BISHOP. Yes, sir.

Mr. VINSON. Where is your authority for that statement?

Mr. BISHOP. I have seen it repeatedly in print.

Mr. VINSON. You have seen it in print.

Mr. BISHOP. I would like to have a revision of it, if you want to supply it.

Mr. VINSON. There is no question but that that figure is completely out of line. I will put the figures in later.

Mr. BISHOP. Prior to 1929 we had a fairly high level in the supply chamber. Everybody was trying to get rich quick and not to have to work any more, and building up national wealth through savings, through this savings pipe line. Of national wealth we have perhaps \$300,000,000,000. It could be bought today for considerably less than that figure. In 1929, when the foreigners withdrew their money from our markets, and the banks started calling their loans, the only way people could pay was to screw down on this thrift valve. Everybody started to screw down at once, and it had the same effect as closing a water valve in your house. It set up a vibration.

This went out all through the country in 1933, when the banks closed, and there was such a confusion that people thought that the old machine was going to go to pieces. Then the Congress delegated to the President doing something about it quickly. So that he called in General Johnson, and they put in this N. R. A. price-control valve. That had the effect of equalizing the pressure, but also of slowing up the flow. When the people found that the demand chamber was going down from \$80,000,000,000 in 1929 to \$40,000,000,000 in 1934, they started screwing down on the conservation valve, which made for old clothes and old shoes and automobiles doing double duty. That had the effect of slowing up the process through the life chamber. Here is how it counteracts on taxes: When your death, depletion, and obsolescence is heavy, and taxes light, it tends to open up the valve here [indicating on chart] and let more goods go through, but when it is light, as today, and taxes are heavy, it tends to throttle the business flow still further. With these four obstacles in the line, the Congress has the question—they have done one good job here, of putting in the N. R. A. child-labor-control valve, which I think it is excellent; then they have come along and here is the agricultural-control valve on farm products [indicating on chart]. Here is the processing pipe line which was put in and which took back to the farmers something like \$800,000,000 last year. Here is the 40-hour week N. R. A. control valve. Here is the 7a, labor union, which stuck in the line [indicating]. Here is the N. R. A. control valve of production [indicating]. With all these valves and obstructions in the operation of the economic system, it is simple to see what effect has been produced. It has had, to my mind, an opposite effect. It has slowed up things. The thing which we need above all else is to get this overflow of labor stopped.

Labor cannot flow freely into production, and this tank has overflowed, and we have here a labor overflow line which mixes at this

point with Government relief [indicating on chart] and the two go off to waste, to the tune of \$120,000,000,000 in 5 years, waste from unemployment. It is quite evident that as your taxes go up and they drain off more and more of our supply chamber, people have to screw down tighter and tighter on the thrift valve, in order to cut down on the flow a bit. The more they screw down here, the less business flow there is [indicating on chart] and the less business flow there is, the more unemployment, and the more unemployment, the more overflow, and therefore the Government must use this tank of relief to take care of unemployed. It seems to me that the way out of this is very simple. I call it the congressional tax control plan. That is, that we must have more flow through this channel and must have more consumption of goods. To get that, I have suggested that Congress exempt from taxation the personal income tax, provided the individual spends that money in consumption. But if a part of it is to be put into national wealth, for income purposes, then there should be a tax-control valve here, which, in a time like this, would be at least 50 percent taxes or savings out of income.

Mr. KNUTSON. Is it your thought that all income should be exempt from taxation, provided it is put into regular channels of consumption, expansion, or whatever it is?

Mr. BISHOP. Yes, sir.

Mr. KNUTSON. That would encourage spending, or the revolving of the money?

Mr. BISHOP. Yes, sir.

The CHAIRMAN. Where would you get your money to support the Government?

Mr. BISHOP. Just what you are figuring on today. I think we could well afford to pay higher taxes on our incomes, our corporations.

The CHAIRMAN. If they put their money into income, as you remarked, they are free from taxes. I do not understand it. You said if it were put in some business, employment, they could not be taxed, in response to Mr. Knutson's question. Is that your position?

Mr. BISHOP. My idea is that money that is saved out of income, to be put into the national wealth, should be taxed 50 percent.

The CHAIRMAN. How is that?

Mr. BISHOP. The money which is not spent, or, in other words, apply to the individual what we apply to the corporation. You do not tax corporations on their income, but you tax them on their profits. Give the individual that same right to deduct expenses and tax the unspent portion of the income with a high tax.

The CHAIRMAN. The individual is allowed exemptions for expenses.

Mr. BISHOP. Let us put a higher tax on the unspent portion of his income.

The CHAIRMAN. You would have difficulty, would you not, in following that through? Would you not have administrative difficulties under that?

Mr. BISHOP. I have had enough experience with income-tax collectors to believe that they are quite competent.

The CHAIRMAN. There would not be quite enough of them, would there?

Mr. BISHOP. I think so.

The CHAIRMAN. To check up on the income of every man?

Mr. BISHOP. I think so.

Mr. VINSON. With regard to the total tax burden in the United States, Federal and local, for the fiscal year 1934, the total National Government receipts from taxes, including processing tax, amounted to \$2,985,673,000, and the total local government receipts from taxes was about \$6,416,064,000, making a total tax burden of \$9,401,737,000.

Mr. BISHOP. I thank you for the correction, as I have copied this figure from other figures which I had assumed to be correct. I appreciate the correction.

Mr. VINSON. There is confusion on the question of taxes received and expenditures. Of course, your expenditure figure will not reach anything like \$20,000,000,000, but it will be considerably more than 9.4 billion dollars.

Mr. BISHOP. Yes, sir.

The CHAIRMAN. If you base your conclusions upon the erroneous assumption or basis which you have used, how reliable would that be for the committee or anyone else? I take it that you have come in to give the committee information which is helpful.

Mr. BISHOP. Yes, sir.

The CHAIRMAN. If you are that far off on the amount of taxes paid in the United States, which ought to be a matter of information available to almost everyone, how are we to know that you are not just as far off on the other information?

Mr. BISHOP. I do not think there is so much difference we cannot draw a lesson from this.

Mr. KNUTSON. It would not change the principle, Mr. Chairman.

Mr. BISHOP. The principle is what I want to bring out.

Mr. BROOKS. Have you figured out roughly how much in general the Government would derive under this system if 50 percent would go into national wealth and the other into business?

Mr. BISHOP. I do not think there would be so much personal taxes, but under this plan, as it is today, it seems to me you would be creating employment and giving work to the unemployed.

Mr. BROOKS. How much money would you say under your system that you would produce, and how much would come into the Government?

Mr. BISHOP. Supposing that one-half of it would come in which you get today, it would still be worthwhile to do this in order to get revenue from corporations, which you are not getting today.

Mr. BROOKS. But you have not figured out in dollars and cents what this system which you have presented before us means?

Mr. BISHOP. I do not think anyone could figure out just what the individual would react to pay; in other words, how much spending there would be and how much left to pay taxes with.

Mr. BROOKS. You recommend a certain system for exempting what goes into business. If I put my money into my business, I am exempted from taxation, I understand.

Mr. BISHOP. No; if you put it into profits, it should be taxed.

Mr. BROOKS. All money going into business goes in for profit. You say it is to be taxed.

Mr. BISHOP. The money going through here to build up national wealth. In other words, if you put money into a factory, an apartment house, or building, or anything for profit, that should be taxed 50 percent.

Mr. BROOKS. Every business man is to be taxed?

Mr. BISHOP. No; only the personal income.

Mr. BROOKS. You are talking about corporations, are you not?

Mr. BISHOP. Corporations are part of this national tax here.

Mr. BROOKS. I say, corporations are included there?

Mr. BISHOP. This is only personal income exemption. The idea is to exempt the personal income.

Mr. HILL. As I understand it, you have charted a kind of economic system. What we are interested in today at these hearings is in hearing a discussion on the question of taxes, covering income, graduated corporate income taxes, inheritance taxes, and gift taxes in connection with inheritances.

Have you anything to offer along those lines?

Mr. BISHOP. Yes, I think if you will increase those taxes, you are going to have to throttle business still more. In other words, business will have to economize more to pay those taxes, and there will be less money spent on the business pipe line and therefore more unemployment.

Mr. HILL. Then I take it that the burden of your argument is that the proposals in this tax program are wrong, from that standpoint?

Mr. BISHOP. Yes, sir; I think so. Something was said here this morning about England. I think we can get a lesson from England. When you think of what happened after the war, when their millions of soldiers came back, and they had production speeded up, what did they do? They increased taxes enormously. People had to discharge help, sell their homes, and practice the utmost economy, and it had the effect of throwing more people out of employment and the Government had to take the enormous tax and pay it out as a dole.

Mr. VINSON. According to the studies which we have before us with regard to the tax burden in the United Kingdom for the year 1934, it totaled \$4,559,820,000. The per capita burden during that period was \$99.11, whereas the per capita burden for the same period in the United States was \$74.37. How does the gentleman reconcile that with his figures, just given?

Mr. BISHOP. The point I was trying to make, Your Honor, is that by giving the people the opportunity of either spending their income or being taxed, England would have been far better off. They would have had their people employed in industry rather than being on a dole.

Mr. VINSON. England snapped out of it pretty well, and yet England has a \$25 per capita added burden in taxes over the United States.

Mr. BISHOP. At the same time I think they have a lot of unemployment at the present time.

Mr. HILL. You propose largely an excise tax on the privilege of hoarding? Is that right?

Mr. BISHOP. That is the idea.

The CHAIRMAN. You would cut out all taxes?

Mr. BISHOP. No; I would not cut out all taxes.

The CHAIRMAN. You do not offer any plan there which would furnish adequate taxes or produce adequate taxes to support the Government. You have no idea what it would produce. Can you give us any definite figure now as to what your system of taxation would produce in the way of revenue per annum in the United States?

Mr. BISHOP. I think you would have from two to three times, at least, from corporation taxes, that you have today.

The CHAIRMAN. How would you do it, if you exempt them from paying?

Mr. BISHOP. I do not exempt the corporations from taxes. My idea is only to exempt the individual, providing he spends the money.

The CHAIRMAN. Then why not break up all corporations and run business by individuals? Why would not that be the temptation, if no individual paid taxes? Would not that mean that there would be no incentive to have corporations, and why not liquidate them and consolidate them into individual businesses, if they are to be free from taxation? You know a corporation would not stay in business if they were paying taxes and an individual who was a competitor was not paying taxes. What would that bring about? Equality of opportunity? Suppose half dozen men operate a partnership, the same kind of business as a corporation, and yet the partnership pays no taxes and the corporation pays taxes.

Mr. BISHOP. I see your idea, but we are giving to the individual the same right as corporations. We allow the corporations to deduct their expenses. That is all we are saying here should be done, for the individual to deduct his expenses.

The CHAIRMAN. That is provided for.

Mr. KNUTSON. It is proposed here to give spending velocity?

Mr. BISHOP. That is the idea.

Mr. KNUTSON. And really put a premium on spending, under your plan?

Mr. BISHOP. That is the idea.

Mr. KNUTSON. And keep it moving.

The CHAIRMAN. How long will it take for you to conclude your statement?

Mr. BISHOP. That is practically all I have to present.

The CHAIRMAN. Thank you for your appearance and the information you have given the committee.

The next witness is Benjamin C. Marsh.

STATEMENT OF BENJAMIN C. MARSH, WASHINGTON, D. C.; REPRESENTING THE PEOPLE'S LOBBY

Mr. MARSH. Mr. Chairman and members of the committee:

I should like to read a very brief statement, outlining what I want to say, and then I will amplify it, if you will permit me to:

Heavy and progressive taxation of incomes starting with \$3,000, and taking practically all of incomes over \$50,000, including income from Government bonds, doubling of estate and gift taxes in the lightly taxed lower as well as higher reaches, heavy taxation of liquid corporation surpluses, and taxation of land values, are the alternative to early general repudiation, by inflation, or directly.

These taxes will yield at least \$3,000,000,000 more than this type of taxes yielded last year, and permit the repeal of half a billion dollars of nuisance taxes.

In 1933 about one-third of 1 percent of the people received approximately \$4,993,000,000 gross income, one-tenth of the total gross national income, and should be taxed at least \$1,000,000,000 more—and I am in that class, and so is every member of this committee.

I was impressed by the statement of one member of the committee, not present here, that the committee could indicate its sincerity by levying taxes under which he, on his salary from the Federal Government, would pay about five times as much as he does, and I commend his astuteness and his knowledge of what is ahead, if we do not tax at about that rate.

Mr. KNUTSON. Do you think that would be possible, Mr. Marsh?

Mr. MARSH. I was just out in Chicago last Friday and Saturday, where they had a political conference, trying to give birth to a new party, and there was not any large degree of success. What I will call a political lying-in hospital was what it was, because they were figuring out how to get everybody's vote without interfering with anybody's graft, and they were willing to give up everybody's graft except their own. I am told there was a Congressman who said that he never voted for a tax bill nor against an appropriation bill.

We have passed the limit where we can goad the people any more in America. We simply cannot attempt to pass on the bills to the next generation which are incurred now, the payment of due bills, because we do not have the guts to tax people.

In 1933 the net income of the 320,503 persons reporting net incomes over \$5,000 was \$4,053,000,000, their gross income \$5,000,000,000 or about one-tenth of the total gross national income and they paid in income taxes only \$333,000,000, or about one-tenth of Federal tax collections. They should have paid at least \$1,000,000,000 more.

In 1933 the total of net estates was only about \$712,000,000 and total tax liability was about \$60,000,000.

At the close of 1932 liquid corporation surpluses were about \$27,800,000,000, and the Government did not tax them.

Most Federal expenditures maintain and enhance land values, and the Government should raise at least \$250,000,000 by a Federal excise tax on the privilege of holding land.

I do not want to bring that in except to ask that your committee will give a hearing on the bill introduced by a distinguished member of your body, Congressman Moritz of Pennsylvania on that subject. Our present national income is sufficient to permit the highest standard of living in the world for all our people, even without socialism, if honestly distributed. Now I am assuming, and I think correctly, that we are going to go along in America for some time under our present economic system, although with such control of capitalism as Sweden and some of the other Scandinavian countries are rapidly installing—and I am going to speak on that line—assuming that we are not going immediately into either socialism or communism, we are very apt to go into bankruptcy, which will force one of those other two economic changes. We are never going to accept fascism voluntarily.

When this gentleman was talking about the \$20,000,000,000 of taxes raised, I knew what he meant. He meant that was what we would raise if we paid for the "new deal", and not that we are actually raising it, because that is approximately what the Government is spending. I do not mean the Federal Government, but all governments.

We have reached a point where we do not dare say to three, four, or five million people, "You are going to starve." Government is going to employ for the next 5 years three or four million people at

least or they are not going to be employed. You cannot say to an individual, "Why, drat you, go and get busy and employ people" and get him do it. You can tell them to do it, but you can not make them do it. I think that the experiment which is being tried—and I am not going to question the sincerity of it,—but I think that it is an experiment to try to go in opposite directions simultaneously, and it means, of course, that we just stay, if you apply equal pressure, where you are.

I am familiar with the fact that the President in a message on taxation called attention to the great, immense source of revenue. The Federal Government is going to have to incur the responsibility of raising funds to the extent of \$6,000,000,000 or \$7,000,000,000 a year for some time to come, so far as I can see. He said, "We should likewise discourage unwieldy and unnecessary corporate surpluses." I refer to the great corporate surpluses at the end of 1932, the last figures we have. Of course, you gentlemen have access to later figures, but I am going to deal with those figures, and they were \$27,800,000,000, in round figures, of liquid corporate surplus. The big corporations, 632 of them, had over one half out of the total of 392,000 corporations—the Steel Trust and the rest of them.

Mr. Chairman and members of the committee, with your permission I want to read into the record an editorial in yesterday's Washington News which I assume went to all the Scripps-Howard string of newspapers entitled "Taxing the Joneses." It takes the case of a white-collared man—and the middle classes are going to be the determining factor in America. They are going to decide whether we are going Fascist or with the progressive element, to put it mildly. There is another alternative. Here is a man with a white-collar job, \$3,600, and he belongs to the upper crust of 1,700,000 people who have incomes large enough to be taxable. They pay a direct Federal income tax of only \$13.60, and the details are given. But they will pay in indirect taxes \$49.13.

The CHAIRMAN. How many cents did you say?

Mr. MARSH. \$49 and the unlucky number of 13 cents, and they give the details. It is very conservative. They do not, as they say, include what they pay on account of the processing tax on farm products, which is costing the average family \$35 to \$40 a year.

The combined tax is much less than that family should pay.

May I read this into the record?

The CHAIRMAN. Without objection it will be inserted in the record, Mr. Marsh.

Mr. VINSON. You had an item of \$21.90 cigarette taxes out of that figure?

Mr. MARSH. It gives the details; \$21.90 for cigarettes; yes, sir.

If folks should stop smoking cigarettes, what would happen to the wealthiest country in the world?

Folks have got to smoke themselves to death in order to keep this Government going, so intelligent is our Government.

Mr. THOMPSON. Does that apply to drinking whiskey, too?

Mr. MARSH. Yes. When they wanted to repeal the eighteenth amendment they told us it was necessary to balance the Budget, and I understand the profits have been three or four times what all governments have gotten in taxes.

Mr. DINGELL. How much of that figure is liquor tax, on the average individual?

Mr. MARSH. As I recall it, \$6 liquor tax; one quart of whisky a month. I do not drink it, but you gentlemen can tell me whether that is a fair allowance. Yes; one quart of whisky a month is enough for their social needs, tax 50 cents a quart.

I want to call your attention to this editorial. That gives just what it is apt to cost in direct and indirect taxes and, of course, it is an assumed consumption, but I think it is fair, for a family on \$3,600.

But remember, the majority of our families in America have incomes of \$1,200 and less; and, from all these indirect consumption taxes, and so forth, the Federal Government gets nearly two-thirds of its income.

Most State and local governments get between two-thirds and three-fourths of their income from such indirect taxes.

Of course, I realize that you are not contemplating now the repeal of any excise taxes, and I understand that that is not to be considered, but, if you are willing, I would like to read into the record a very short resolution adopted at Chicago last week—not at the political meeting—asking for the repeal of the processing taxes on farm products.

Mr. HILL. I do not think it would be pertinent to this inquiry.

Mr. MARSH. I will not do it, then.

Mr. HILL. We would like to hear you upon what your ideas are as to income taxes, both individual and corporate, and inheritance taxes.

Mr. MARSH. You will have to go the limit. I think you will have to reduce the exemption, possibly, to \$800, and certainly you cannot increase the exemption for single people, and I think you will have to reduce it a little for married people. You will have to adopt practically the British system of taxation, under which a man with an income of \$5,000 and one dependent child paid, as I recall it, between 9 and 10 times what he does in this country.

(The editorial referred to is as follows:)

[Washington News, July 8, 1935]

TAXING THE JONESES

As congressional committees start work on a new tax bill amid such editorial epithets as "soak the thrifty", let's look at some Federal taxes visible and invisible in the family budget of John and Mary Jones.

The Joneses are much more fortunate than the average American family. John has a steady white-collar job, salary \$3,600 a year. The Joneses belong to the upper-crust 1,700,000 who have incomes large enough to be taxable. Their Federal income tax is small, to be sure, since by deducting 10 percent, the earned income credit (\$360), the \$2,500 married-couple exemption and the \$400 additional exemption for their one child—little Oscar—only \$340 of John's income remains to be taxed at 4 percent. The Joneses pay a Federal income tax of \$13.60.

It is not much, but that \$13.60 paid on March 15 date is about the most painful outlay in the whole year. John and Mary see their hard-earned money slip through their fingers into the yawning coffers of the Federal Government. They have a personal interest in insisting that their Government spend that \$13.60 prudently.

Having listed the outstanding visible tax in the Jones budget, let us itemize a few hidden Federal taxes, ignoring entirely, for purposes of simplification, State and local taxes:

The Joneses have a small car. It cost about \$600. Every few years, they trade in their old car and get a new one. The cost of depreciation and replacement runs about \$120 a year. The Federal tax on automobiles is 3 percent. So we'll average out the tax item at 3 percent of \$120----- \$3.60

They drive the car about 10,000 miles a year, get 15 miles to the gallon of gas, pay a Federal tax of 1 percent on each of the 666 gallons-----	\$6. 66
The car uses an average of a quart of lubricating oil every 100 miles. So they buy 100 quarts a year, taxed at 1 cent a quart-----	1. 00
The car wears out three tires a year, so they pay a tax of 2½ cents a pound on three 20-pound tires, and 4 cents a pound on three 3-pound inner tubes-----	1. 71
Mary is old-fashioned. She doesn't smoke. Oscar is young and hasn't acquired the habit yet. John doesn't smoke a pipe or cigars. He doesn't chew natural leaf, nor dip snuff. Hence he escapes a lot of Federal taxes. But John is an average cigarette smoker, using a pack a day, 365 days a year, taxed at 6 cents a pack-----	21. 90
John uses at least 20 matches a day lighting his cigarettes. He should be glad he's not a pipe smoker. But at that, John, with his cigarettes, and Mary with her cooking, strike about 12,000 matches a year, taxed at 2 cents per 1,000-----	. 24
The Joneses are temperate folks. Being of the prohibition generation, they never learned to drink wine, and therefore escape wine taxes. On warm days, in spring and summer and fall, John likes his cool bottle of beer—about 200 bottles a year, tax 1½ cents a bottle-----	3. 00
When friends drop in for a social evening, Mary and John mix up a few highballs. A quart of whisky a month is enough for their social needs. Tax 50 cents a quart-----	6. 00
The Jones generally patronize the neighborhood theater, where the admission fee is less than 40 cents, and therefore not taxable. But about once a month John and Mary splurge, go to a 50-cent first-run movie at a downtown cinema house, paying a 10 percent tax-----	1. 20
Twice a year, they celebrate by attending a legitimate play, \$2 a seat plus a 10 percent tax, totaling for the four admissions-----	. 80
John is a sedentary creature. He doesn't fish or hunt or play golf or tennis. And hence, fortunately for his pocketbook, he doesn't buy any taxable sporting goods. But he does go to about five ball games and one prize fight in a year, \$1 each admission, tax 10 percent-----	. 60
Mary likes to play bridge. About three packs of playing cards a year are worn out. Tax, 10 cents a pack-----	. 30
Mary doesn't buy expensive taxable furs and jewelry. And \$10 worth of cosmetics a year keeps this frugal housewife's schoolgirl complexion and John's love interests at home. Tax, 10 percent-----	1. 00
Five dollars worth of toilet soaps, tooth paste, etc., at 5 percent, tax the household-----	. 25
The radio, new parts and depreciation, about \$5 a year, tax 5 percent----	. 25
Their mechanical refrigerator, repairs, and worn-outs cost \$10 a year, at 5 percent-----	. 50
The three of them chew a dollar's worth of gum in a year, taxed at 2 percent-----	. 02
They spend but little on telegrams and long-distance calls—maybe \$2 a year, taxed at 5 percent-----	. 10
Neither John nor Mary belongs to a club, so they pay no taxable dues. They don't go to night clubs or cabarets where admission are taxed 15 percent. They don't buy taxable firearms or cameras. They don't play the stock market, where transfers of stock are taxed. We can't estimate how much the oleomargarine tax adds to their butter bill. Since the processing taxes which they pay on the food they eat, on the clothes they wear, go not into the general treasury but are segregated for the specific purposes of subsidizing and stabilizing the farm industry, we shall not include them in this tax computation. So let us stop here and add up the Federal taxes which we have brought out of hiding. They total-----	49. 13

We consider that figure a triumph in understatement as it relates to unseen Federal taxes paid by an American family living on \$3,600 a year.

Until we did this little job of arithmetic for John and Mary Jones, they probably had no idea they were so tax ridden. But they did notice that \$13.60 income tax. Had the whole amount, \$62.73, been visible, had it all been income tax, they would have noticed it a whole lot more and would have been much more interested as they read in the paper that their Government had been pouring about 20 million dollars a year down a ship subsidy rat hole, for example.

It should be remembered that at least 95 percent of the population belong to families who live on incomes that average much less than the income of the Joneses.

Jim and Alice Smith, who live across the street, have an income of only \$2,000 and don't pay any income tax at all. But like the Joneses, the Smiths drive a small automobile, go to movies, and consume almost as many taxable goods and therefore pay a hidden tax bill nearly as large as the Joneses.

The Astorbilts, who live in a mausoleum in another part of town and have a \$200,000 income, pay some more in hidden taxes, but proportionately not a whole lot. They eat no more, though they do have more expensive food. They smoke no more. They drive a bigger car and have imported whisky. But as their consumer tax compares to their income the amount more that the Astorbilts pay is infinitesimal.

To build up a tax system based on ability to pay, one that would be fair to the Joneses and the Smiths and the Astorbilts, Congress, we believe, should work toward elimination of all hidden trade taxes and the substitution of income taxes reaching down into income brackets much lower than those now taxed and graduating upward with higher rates on larger incomes.

Then the Joneses and the Smiths, as well as the Astorbilts, will be interested in seeing how their tax money is spent.

Mr. MARSH. The question was raised by Mr. Woodruff this morning as to how much the total income tax of the State is plus the Federal Government. Let me give some figures, including the New York State income tax. A man with an income of \$5,000 in America, in New York State, paying the State income tax on \$10,000 income, has left \$9,251. He pays only 46.2 percent of the British tax. A man with \$5,000 in New York, subject to both State and Federal income tax, pays only 27.5 percent of the British tax.

May I have those figures in the record?

The CHAIRMAN. Without objection, it is so ordered.

(The statement referred to is as follows:)

On the basis of tax rates of Great Britain, we could raise at least \$5,000,000,000 more than we do by personal and corporation taxes, for our national income is much larger than hers, and there are many more large incomes here.

In 1934 Great Britain raised \$1,407,610,000 by the income tax, and we only \$819,656,000.

In 1932 Great Britain raised \$325,000,000 by estate and inheritance taxes, we raised only \$196,858,000.

The Federal income tax paid by a married American without dependents, on a \$4,000 income is only 10.3 percent, on a \$5,000 income only 13.2 percent, and on a \$10,000 income only 25.6 percent of what a Britisher pays.

New York State has a slightly progressive income tax, but the following figures of the amount married men without dependents in New York State would have left after paying Federal and State income taxes, and the ratio to the tax paid similarly in Great Britain shows what we could do if Government dared tax the privileged classes instead of borrowing from them.

A man with an income of \$5,000 has \$4,833 left, and his combined income tax is only 27.5 percent of the British tax.

The \$10,000 man has \$9,251 left, paying 46.2 percent of the British tax.

The \$20,000 man has \$17,434 left, paying 54.3 percent of the British tax.

The \$50,000 man has \$38,680 left, paying 62.1 percent of the British tax.

The \$100,000 man has \$65,931 left, paying 75.2 percent of the British tax.

The \$500,000 man has \$220,236 left, paying 94.9 percent of the British tax.

The \$1,000,000 man has \$398,377 left, paying 98.1 percent of the British tax.

It will be noted that in Great Britain also, the larger the income the farther is the tax from the principle of proportionate sacrifice. Taking all net income over \$100,000, or even over \$75,000, would come nearer to this principle hallowed in preselection pledges.

The CHAIRMAN. That does not indicate how many taxes he might pay indirectly out of that income?

Mr. MARSH. I do not think it is the function of the Federal Government to make itself responsible for the crookedness and stupidity of State governments. I do not say all that because 38 of them are Democratic—and so many city governments.

That is not your job. If they have not got sense enough to adopt an honest system of taxation, they are off in their heads.

The CHAIRMAN. Maybe you could have LaGuardia appointed.

Mr. MARSH. It would seem that they need to, I admit, but I do not think it is my function to suggest it.

The CHAIRMAN. Who would be the judge?

Mr. MARSH. If they do not like the system, let them change it.

I do not think a party which is an advocate of States' rights should necessarily interfere with the stupidity of the State tax systems.

This taxation may have a very great importance because it is all tied up with N. R. A. legislation. I talked to an important Senator as to whether they could get through an amendment to the Constitution to validate or make legal the N. R. A. and have it ratified in 6 months.

He said, "We could, but we won't."

The reason, of course, as I understand it, is that the Supreme Court gave its decision because they knew the thing was unpopular and they helped out the administration, and it was because of that.

But if you want to get a uniform labor——

The CHAIRMAN. You are not serious about that being the basis of the Supreme Court decision?

Mr. MARSH. If you do not believe me, read an article in the current Nation by a good lawyer.

The CHAIRMAN. I want to know if you are sincere about the decision of the Supreme Court, that they did it because they wanted to help out the administration? Or because the law was unpopular?

Mr. MARSH. Absolutely. I have right here and I will read back the election returns and a lot of stuff.

The CHAIRMAN. You contend that the Supreme Court was not guided by the fundamental law of the land, but moved by expediency, and wanted to help out the administration?

Is that your statement?

Mr. MARSH. I think it is because they have a little common sense, too, and outside of that I think it is because they wanted to help out the administration. There are three articles in the Nation, one being an article about the judiciary, which is very interesting.

The CHAIRMAN. I think that is the most severe indictment I have ever heard any man in public bring against our Supreme Court. I think you should be ashamed of it, yourself. I am compelled, because of my high opinion of the Supreme Court, to make a statement, as much as I hate to, and as much as I respect you:

I think you will want it stricken from the record, and you will regret making the statement.

Mr. MARSH. No; I do not regret it.

The CHAIRMAN. The thing which startles me is the basis on which you say the Supreme Court rendered its decision, not on law at all.

Mr. MARSH. You will remember the statement of a certain person that the Supreme Court follows the elections. The Supreme Court always has. The President of the United States suggested in a Baltimore speech, before election, that they could change the Supreme Court.

The CHAIRMAN. If that indictment of the Supreme Court is true, it would be absolutely dangerous.

Mr. MARSH. It is not an indictment; it is a compliment.

The CHAIRMAN. It is a very severe indictment.

Mr. MARSH. I will say this: I would just as soon trust the nine Justices of the Supreme Court, almost, as any nine radicals in America I know.

The CHAIRMAN. What do you mean by that? "Any nine radicals"? With what class are you comparing them?

Mr. MARSH. I am comparing them with what is sometimes called the intelligensia, who think straight and do not have to wear black robes.

Those gentlemen in the Supreme Court are thoroughly entitled to their views, but they know perfectly well that they have to take into consideration economic conditions, and their viewpoints change from time to time.

The CHAIRMAN. You said you would compare the Supreme Court with any nine radicals?

Mr. MARSH. Yes, sir.

The CHAIRMAN. What do you mean by that?

Mr. MARSH. I mean, I think they have just as good sense and have the welfare of the country quite as much at heart as any nine radicals in America.

The CHAIRMAN. You speak of any class, whether radicals or not?

Mr. MARSH. I think so.

The CHAIRMAN. Why not compare them with any class of people?

Mr. MARSH. What I am interested in is not the constitutionality of the matter, but the economics. If everything has been constitutional and we are in the present situation, why not use a little sense in taxes? You can compel States to adopt sound labor legislation through the Federal Government's subventions.

The CHAIRMAN. If you have somebody to set up a correct standard of economics, it might be all right.

Mr. MARSH. I point out that England is getting out of the hole.

Mr. BROOKS. Mr. Chairman, I would like to have the gentleman get back on the subject of taxation, and give us his ideas on taxation.

Mr. MARSH. I have suggested we go just as far as England goes, practically the same rates on income taxes, corporate and individual taxes, and on estates, and also remember that we have terrible overcapitalization of our corporations here, which is the excuse they often give for not being able to pay taxes.

I want to read a statement on that very subject from a man whom I regard as one of the foremost Democrats in America, present company in the White House not excepted, Secretary of State Cordell Hull. In a recent speech he said:

A large section of our industry is maintaining an artificial price situation, is endeavoring to move forward under the heavy burden of inflated capitalization, excessive overhead charges, wasteful overcapacity, and obsolete units of equipment. Never was improvement in industrial efficiency more needed than now. We cannot hold our place in the world if industry is to rely on doles, subsidies, and other artificial arrangements which bolster up and keep alive inefficiency at the expense of the progress and expansion of the vigorous and efficient units in our economy. We must come down from our artificial stilts to solid reality if we are to achieve substantial industrial prosperity and if we are to hold our place in the world market.

The CHAIRMAN. How much additional time would the gentleman like?

Mr. MARSH. About 5 or 6 minutes, if you can spare it.

The CHAIRMAN. We will give you 5 more minutes.

Mr. MARSH. That is substantially the statement which Mr. Hull made to me at the Economic Conference in London, 2 years ago, when he was having a little set-to with Raymond Moley, you will remember. The Brookings Institution in its book, "The Formation of Capital," states:

The inflation of security prices out of all relationship to underlying economic values was undoubtedly a powerful contributing factor in bringing about the depression which began with the stock-market collapse of October 1929.

Mr. HILL. Mr. Marsh, what relationship has that got to the subject under discussion?

Mr. MARSH. This: The corporations tell you that they cannot pay taxes because they have so much overhead on which they have fixed charges. My point is, as Mr. Hill and every other student knows, that corporations are desperately overcapitalized.

Their total assets at the end of 1929 were \$335,000,000,000 and were reduced to \$280,000,000,000 in 1932, and are probably still \$100,000,000,000 to \$125,000,000,000 too high. If you want to get money by taxing corporations then you must insist upon honest capitalization and fair dividends, and if they are paying on watered stock, which is serving no purpose, the Government should have the first claim on what they take in as income on it.

Mr. KNUTSON. Mr. Marsh, the corporations as well as the individuals are being dehydrated under the "new deal", so that you need not worry about the excessive moisture.

Mr. MARSH. The very few ones being benefited under the "new deal" are the speculators in city and farm lands. For instance, Vincent Astor was paid in the city of New York with borrowed money from the Federal Government \$3.50 a square foot for land to house the poor for which \$1 would have been an atrocious price. On another project, of which I do not know the owners, in Williamsburg, Brooklyn, they paid \$3.46 per square foot.

Farm land was \$20,000,000,000 too high in 1932, and it has jumped \$2,500,000,000, according to the Secretary of Agriculture, since then. Now, coming to the question of whether the Government has a right to be in business: Government is in business, wherever it grants a protective tariff. The party in power keeps it. You have got a right to find out what the liquid surplus of the corporations is, and you have got a right to tax that surplus, I believe, to the maximum. Now, I do not suggest progressive taxes on corporation profits because, as pointed out, it hits the little fellow out of proportion, but you can force them to pay out in dividends so that those dividends will go to people subject to the surtax. As you may recall, less than 1 percent of the American families get around three-fifths of all dividends paid on the stock of domestic corporations. You can raise \$3,000,000,000 more on our national income, without doing any injustice. I call your attention to the fact that Great Britain, with about one-half of our wealth and income, raises approximately twice as much from the individual and corporation income tax and estate taxes as we do. In other words, we could raise four times as much.

The CHAIRMAN. When you say "we", are you referring to the Federal Government or to all taxes?

Mr. MARSH. I am speaking of the Federal Government. Thank you for making it clear.

The CHAIRMAN. They have one tax in Great Britain, while in this country we have the State tax, county tax, Federal Government tax, and so forth.

Mr. MARSH. I was referring to the Federal Government.

The CHAIRMAN. In Great Britain they pay one thing and over here another thing. You are comparing it to the tax of Great Britain, comparing the Federal Government tax here, and they are without the State and local taxes.

Mr. MARSH. I am comparing the same sort of taxes, and Great Britain has these consumption taxes, too, just the same as we do.

The CHAIRMAN. You are testifying as to the tax burden on the individual in the two countries on income.

Mr. MARSH. The per capita does not mean anything, what we pay relatively per capita. I ought to be paying \$500 a year more Federal income tax to the Government than I do. I wish you would make me do it. I made the same suggestion when Claude Kitchen was chairman, and he said, "You are safe", when I said you should increase the taxes of Rockefeller and Morgan at the same rate, he said, "You are perfectly safe, because the Democratic Party won't do it."

I hope the Democratic Party will do something about it, but I am afraid not. You now have the opportunity to do it.

I want to make one other statement. Read the Democratic platform of 1932, which pledges balancing the Budget by a system of revenue based upon the principle of ability to pay, and, if you do that, we will get in the clear; and recall that the Federal Government has got to continue paying practically all the cost of maintaining the unemployed, and it has got to spend probably \$750,000,000 a year in education.

It has got to pay the Government's share of unemployment insurance and health insurance.

I congratulate the courage of this committee in staying here during the hot summer months, or at least the hot summer weeks, to pass a tax bill which will justify the existence of the Democratic Party.

The CHAIRMAN. Thank you for your appearance.

The CHAIRMAN. A. M. Loomis.

STATEMENT OF A. M. LOOMIS, AMERICAN ASSOCIATION OF CREAMERY BUTTER MANUFACTURERS

Mr. LOOMIS. My address is 630 Indiana Avenue, Washington, D. C.

I am appearing at this time as a representative of the American Association of Creamery Butter Manufacturers; and not as a representative of the National Dairy Union, although I am connected with both organizations.

As I say, I am here representing the American Association of Creamery Butter Manufacturers, which is an association of about 200 manufacturers of creamery butter in the United States, and representing in membership approximately one-third of all the creamery butter made.

We purchase from others enough to bring that up to a little over one-half which we market.

I know that I do not need to go into details with this committee to give to you the importance of this particular industry in American agriculture. You are all familiar with the facts.

This industry produces a little over one-quarter of the income of American agriculture, the dairy industry, not the butter industry. The butter industry is the basis of the dairy industry.

I am speaking for a trade association and not for any individual member of the association, and for the interests of the entire industry and not for the interest of any particular member or shareholder.

With respect to the graduated corporation tax, the only subject I want to take up—I am not concerned here, as I say, today, with any other parts of the program, but I will try to confine it to one particular thing—there are two points to which I wish to direct your attention:

First is the discrimination involved in this proposition as between stockholders and, secondly the tremendous changes involved in the same proposition as between individual units operating in the same industry.

We find ourselves entirely opposed to the proposal which has been made by the President with regard to graduated corporation taxes. The gross business in this industry is approximately 2,250,000,000 pounds of butter a year, running, in round numbers, to a cost of \$500,000,000.

In the 200 association members, of which I have a list here, we find that there is some member of this association, or more than one member, in practically each one of these classes which have been specified by the program which is before you, as within this range of different rates.

In this business, outside of the members of this association, are some 3,500 other units, running down to the smaller factories, of course. About one-third of the units of this industry are cooperatively owned, and, therefore, not subject to any corporation tax at all. About one-third are privately owned. About one-third are corporation owned.

So that here is a tax which rests upon one-third of the industry, which finds itself in intimate competition with the other two-thirds.

One other item as a basic item: I saw the other day a survey for the year 1933 of a selected list, a cross-section of the creamery industry. It showed that about two-thirds of the units surveyed netted a profit in 1933, and about one-third operated at a loss. The average profit was about 3 percent. That is, it paid about a 3-percent dividend to its shareholders. The average loss was about 2½ percent. So that, within a range of 5½ or 6 percent, you get about a picture of the normal operation of the creamery industry.

In other words, we are a very modest, middle-class group. It represents a solid, conservative, substantial group of American business men, engaged in one of the great fundamental industries of the country.

This 1933 summary is a fair summary. I have been familiar with these figures over a period of 10 years. In good years the income will run a little higher, and there will be considerably fewer failures, but probably 5 to 6 percent represents just about the earnings in the creamery industry.

We have no objections to a plan of corporation tax. Probably there would be no objection to a corporation tax graded upon the rate of dividend. But we feel that a differential based on mere size is an imposition upon the stockholders and constitutes a clear violation of the equitable provisions that taxes should be equal and just.

I talked today with a representative of one of the largest units in the industry, and also with a representative of one of the small units of the industry.

In the larger unit there are something over 67,000 stockholders. In the smaller unit there are a few less than 30 stockholders.

The average amount of stock owned by the individual shareholders in the larger unit is just about 10 shares. The average owned by the stockholders in the smaller unit is a little over 20 shares.

The tax rate of the large company, in which class this 67,000 unit would come, would be about 16 percent. The class rate on this smaller company would be about 12 percent.

You gentlemen are all familiar with the recent case between the shareholder of the larger company and the shareholder of the smaller company. The illustration works out and shows the discrimination as between shareholders in the big company and the little company at 4 percent, that is, the difference between 16 percent and 12 percent, which is a 25-percent tax differential between the shareholders of these two companies.

Of course, you are all familiar with these figures.

I had before me in making out these figures only that which was in the newspapers, which is somewhat changed from the figures officially reported, I understand. The tax on an income of \$1,000, or a 5-percent dividend in one of the smaller companies, would be \$5. That is a 10-percent tax on a \$50 dividend.

The tax on the largest unit in our industry, which is probably the unit which is just less than \$5,000,000 net corporate income, would be \$8.50 on the same \$50 share. That means the difference between \$5 and \$8.50, or \$3.50, in the tax, on a basis of \$5, which is over 70 percent difference in that tax.

Now, as to the discrimination between the major groups of the industry, discrimination within the industry between these different major groups, I wish to revert here to a former statement which was put out by the manager of our association and given to the public [reading]:

In our industry many units do not pay a corporation tax or an income tax at all. Close to 40 percent of the business is handled by farmer-owned creameries which are exempt from taxes of that kind.

I contend that corporation taxes in the creamery industry should be very small, if any at all, because it is rank discrimination to have part of an industry pay no tax and to have another part, highly competitive, pay a high tax.

A corporation is owned by its stockholders, and this is the important point. A corporation cannot increase its earnings merely to meet an increased tax.

That is particularly true in our industry, where we sell in an open, competitive, auction market. We cannot increase the price of our products at will, and never have. And, as you all know, we all operate upon the basis of accepting at all times every pound of butterfat offered to us. We have no control over the amount of the product produced or the price at which we sell it. [Reading:]

Many corporations make very small profits, and it is seldom that dividends on invested capital in the creamery industry exceed 4 to 6 percent, and often there are none.

A tax on a corporation is a direct tax on each stockholder, many of whom are employees or have but small investments, representing their savings—money they have laid away for a rainy day or old age.

The President's proposal would assess a much higher tax on the earnings of large corporations than on those of small ones. Indeed, his request on the large corporation is as high as 17½ percent of earnings. Yet the individual stockholder in the large corporation is no different from the one in a small corporation, and it will be found that the/of stock held by individual stockholders on the average is no greater in the large corporations than in the small one, if as great.

It is my opinion, judging from what I know of this industry, that there is a smaller unit of stock held in the large corporations than in the small ones.

A varying tax would be a discriminatory tax, which must come out of the individual stockholder. It is unfair, and I think would be found unconstitutional.

I will not read further from that.

This is a statement which I have made as a representative of this organization.

I wish, also, for about 2 minutes, to represent another organization: I also represent here the Association of Producers of Domestic Inedible Fats.

This is a very modest, small group, as compared with the creamery group. Every statement I have made relative to discrimination between stockholders, shareholders, and discrimination between the members of the particular industry are true, but in this group they range from corporations having perhaps several million dollars corporate investment down to \$5,000 and \$10,000 units.

Before completing my statement I want to ask the committee to give me just a moment of time for another matter:

In this whole group and in all the other oils and fats producing groups in the United States, we have a request which we want to present to the committee, to look after this matter which came about through the situation last year of taking out fatty acids from the tax that you put in in section 602½. In this item 602½ last year a tax of 3 cents was put on fats and oils, and has been one of the most important tax matters coming through Congress in many years, representing an increased income to American agriculture of something over \$200,000,000 this year. We consider it in our group the most important piece of agricultural legislation passed last year. Through a slip in the language, fatty acids, nothing but the oil with a little bit of glycerin taken out, are not subject to the tax. You will recognize that fatty acids are an oil. We are going to ask the committee to correct this, and documents will be filed in due course, to change section 602½, with a little clarifying language.

MR. HILL. Mr. Loomis, you understand we are not considering that here?

MR. LOOMIS. I appreciate the opportunity of getting this much in the record.

MR. REED. I am very sorry that I had to be absent on the floor, and of course I have not heard all of your testimony. Do you mind stating what organization you represent?

MR. LOOMIS. The American Association of Creamery Butter Manufacturers; and the Association of Producers of Inedible Fats.

MR. REED. How does your organization feel generally toward this tax proposal?

MR. LOOMIS. You know, Mr. Congressman——

MR. REED. I am from your section, and I am interested in knowing.

MR. LOOMIS. I appreciate that. When anyone speaks outside the definite instructions he has had to represent a group, he must speak on his own responsibility, and I am a little reticent to say anything.

I have been in touch with the members of this association in conferences recently, many of whom were here yesterday, and some of whom are here today, and I want to say that the general feeling among those men, the sound, conservative opinion, is one of much greater concern over the spending program than over the tax program. There will be great resistance, I am sure, among the members of this association and the industry they represent against any tax increases until there is a definite limit set so that we will know when this spending program is going to be ended.

The CHAIRMAN. Thank you for your appearance.

The committee will adjourn until 10 o'clock tomorrow morning.

(Thereupon, at 4:30 p. m., the hearing was recessed until tomorrow, Wednesday, July 10, 1935, at 10 a. m.)

PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

WEDNESDAY, JULY 10, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The Committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will come to order. The first witness the committee will hear this morning is Frederic R. Kellogg, of New York.

Will you give the reporter your name, your address, and the capacity in which you appear?

STATEMENT OF FREDERIC R. KELLOGG, PRESIDENT COMMUNITY CHESTS AND COUNCILS, INC., NEW YORK, N. Y.

Mr. KELLOGG. My name is Frederic R. Kellogg, of New York City. I am president of and appearing in behalf of Community Chests and Councils, Inc., which represents four-hundred-odd community chests of the United States.

Mr. TREADWAY. May I ask how they come to be incorporated? I thought the community chest was just a particular local organization. The community chests that I know of are organizations in local communities. What is the necessity for the incorporation?

Mr. KELLOGG. We are simply a central agency.

Mr. TREADWAY. In what capacity do you appear here?

Mr. KELLOGG. I am president of Community Chests and Councils, Inc.

Mr. TREADWAY. Assuming a city starts a community chest and gets local subscriptions to care for the charities in that community. How does it come to have any general characteristics that would warrant incorporation?

Mr. KELLOGG. Local community chests sometimes are incorporated and sometimes not.

The chests throughout the country have found the necessity for joint association, so great that they have joined in the creation of a separate agency, of which I am president, which is incorporated under the laws of the State of New York, and which is called Community Chests and Councils, Inc.

Mr. TREADWAY. Is there a fee charged for joining that organization?

Mr. KELLOGG. Yes; the various chests have made voluntary contributions for the support of the national agency.

The President of the United States has been good enough for the last 3 years to see the necessity for a Nation-wide mobilization for the support of all private charities in the United States, and he has arranged for a similar campaign this fall, in which he will take the initiative, and Mr. Swope, president of the General Electric Co., and the national chairman of our committee or national organization, will head the campaign. Newton D. Baker formerly acted in that capacity, until this year.

A public meeting is held on the White House grounds, and a great deal of publicity is given to it, and the local chests take advantage of the publicity to carry on their fall campaigns for their local drives. The work of the national organization is of great assistance to the local districts.

Mr. TREADWAY. The great bulk of their contributions, I suppose, is used for the local charities?

Mr. KELLOGG. Yes; except a small amount that they contribute to us.

The application which we are making to you, Mr. Chairman and gentlemen of the committee, is that a clause might be inserted in the new tax legislation that you may recommend, the insertion of which will greatly aid in the support of these institutions throughout the country which the chest represents.

The way in which you can help us is this: We want to encourage the corporations to give voluntarily to these things, in conformity with the principle which the President has laid down, as to the great importance of the maintenance of these institutions by voluntary subscriptions.

Mr. TREADWAY. In that connection, you want to urge the exemption from taxation of contributions by corporations?

Mr. KELLOGG. Yes.

Mr. TREADWAY. Is not the argument always made in connection with those corporations, that the directors of a corporation simply represent the stockholders of the corporation?

In other words, is it not agreed, that they are simply the agents of the corporation and do not know the sentiment of the stockholders as regards the specific contribution they may be called on to make?

Is not that the general sentiment?

Mr. KELLOGG. That objection has been made frequently, but the answer to it is this. There is not anything on earth that a corporation ought to be more concerned about than to take care of its own working people.

Mr. TREADWAY. But there are methods of doing that other than by making contributions to community chests. The Social Security Act which we have before us now has that very provision in it, or would have it if a certain amendment is adopted, whereby corporations can take care of their own people, at least in part, but I do not know whether that amendment will be retained in the bill.

Mr. KELLOGG. Under the bill as now drawn these contributions which a corporation is going to make are deductible.

I do want to impress upon you this point, if I may, that we appear in the interest, primarily, of the well-taken-care-of employees of corporations throughout the country, and we submit to you, in all

confidence, that there is no better way of taking care of those people than to contribute to the local agency which serves all groups, including everybody.

The CHAIRMAN. Are the benefits of the chest confined to those who are or have been employees of the corporations?

Mr. KELLOGG. Oh, no. Each local chest serves the entire community, including the employees of any corporation.

The CHAIRMAN. Is the community chest limited to certain employees, or is it for the benefit of all those who need help?

Mr. KELLOGG. It is for the benefit of all those who need help.

The CHAIRMAN. Then why do you need to refer to corporations?

Mr. KELLOGG. I am simply addressing myself to one simple point in connection with the whole work of the community chests, which point is that corporations, under a recent Supreme Court decision, are not allowed to deduct contributions which they may make voluntarily to local community chests, unless they can assemble a mass of evidence to prove their case.

The CHAIRMAN. Do you understand that the testimony in these hearings is limited to the recommendations of the President with respect to levying certain taxes, and does not cover the whole field of taxation? We are not writing a general revenue bill.

Mr. KELLOGG. This suggestion bears upon the question of corporate taxation.

If I have been correctly informed by what I have read in the newspapers, one of the propositions is in regard to increased corporation taxes in certain ranges.

This suggestion that I submit for the consideration of the committee is a point small in importance as compared with the immense problem which you have on your hands, but it is of great importance to the private charitable structure of the country, and it is of such importance that the chests throughout the whole country have been writing to us and to Members of Congress urging that this matter be considered and acted upon.

The CHAIRMAN. Would you like to file a brief covering your views on this subject?

Mr. KELLOGG. Yes, I would like to do that.

The CHAIRMAN. We are getting hundreds of letters, which are evidently nothing but propaganda, worded in the same way, apparently addressed on the same typewriter, and sent in the same kind of envelopes. I have no doubt they may come from as well informed people as letters which come through other channels of propaganda. But they are nothing but propaganda, in reference to the subject that you are referring to.

Mr. TREADWAY. Getting down to brass tacks, as I understand it, what you would like to see done, if we take it up—and like you, some of us on the committee get our information from the press on this subject, so far as this side of the table is concerned, so you are not alone in that condition.

Mr. VINSON. And sometimes it is misinformation.

Mr. TREADWAY. As I understand it, if the question of any change in the corporation tax, along the line of a graduated tax, is considered—and if it is to be considered I have no doubt the Chairman will tell us what it is—you want to have contributions made by corporations given a preferential status, or even exempted from the graduated tax

on corporations, so far as contributions to charitable purposes, particularly community chests, are concerned. That is your story here this morning?

Mr. KELLOGG. That is it, in general, with two limitations. In the first place, that is limited to 5 percent of the income instead of 15 percent, which an individual might give; and in the second place, the provision in regard to giving for different purposes has been stricken out of the amendment; that would not be proper for a corporation.

Mr. TREADWAY. Have you a copy of your amendment available?

Mr. KELLOGG. Yes, I have it here.

Mr. TREADWAY. Why do you not file it with your brief?

Mr. KELLOGG. I will be glad to do that.

Mr. VINSON. The gentleman from Massachusetts referred to your proposed amendment as being connected with a graduated income tax on corporations. It has not any connection with that at all.

Mr. KELLOGG. It is in connection with any tax on corporations.

Mr. VINSON. It is a question of a contribution made by corporations to institutions for charitable and religious purposes.

Mr. KELLOGG. That is entirely correct. It is a part of the entire system of corporate taxation.

Mr. VINSON. It is not hooked in with the proposition of a graduated corporation tax?

Mr. TREADWAY. May I ask if you took it from what you saw in the press—and that is the way we on this side get our information—that we are to take up estate and graduated corporation taxes?

Mr. KELLOGG. I think it is directly connected with that; if we put in an exemption in behalf of community chests, it must have to do with the graduated tax that we are going to consider.

Mr. VINSON. If I understand the gentleman correctly, you want an amendment in the bill, whether we go to a graduated corporation tax or not.

Mr. KELLOGG. We would like to have it.

Mr. TREADWAY. Where would we have a chance to consider it, unless we are going to consider the whole question of corporation taxes? I am not saying you will do it, because you gentlemen get your orders, and we do not.

Mr. COOPER. I want to know whether this morning is going to be wasted like yesterday morning was with a discussion of political matters and extraneous matters, aside from the question that we are here to consider.

Mr. KNUTSON. I think you are right about that.

Mr. COOPER. If that is the situation, I am ready to suspend.

Mr. TREADWAY. So am I, because I think this side did a good job. I was not here yesterday to hear what went on, but from the information which came to me, I am willing to allow you to stay 1 day ahead of me.

Mr. KNUTSON. I do not think we ought to clutter up the record with a lot of things everybody already knows.

The CHAIRMAN. The Chair does not attempt to control the members of the committee as to questions they propound and the statements they make. The Chair does hope, however, that Members on both sides, both the majority and the minority, will keep as nearly

as they can within the scope of the information we desire to obtain in connection with the question we have before us.

Mr. TREADWAY. I thoroughly agree with the chairman.

Mr. KELLOGG. We would like to get that amendment adopted, no matter what happens, and the necessity for it is greatly accentuated by the possibility that the tax on corporations may be increased, and we thought that that was within the scope of your committee's work.

The difficulty of getting corporations to give will be very much more apparent if additional taxes are put upon them. Therefore, we think it has a legitimate connection, and I am urging the point because we would like to have that considered in connection with the general subject of corporation taxes which may come before you.

Mr. TREADWAY. My understanding is that the general subject of corporation taxes is not within the scope of this hearing, under the procedure that has been adopted, and that the only thing to be considered in connection with corporation taxes is whether there should be a graduated tax. So your only chance to have an exemption considered would be in connection with a graduated schedule that may be adopted by the committee and by Congress.

Mr. KELLOGG. We would like to have that amendment adopted, in whatever way you gentlemen will handle the subject.

In the first place, it is not generally realized that the corporations have given between 22 and 25 percent of all voluntary charitable funds which have been given to the chests of the country during the period of the last 5 or 6 years, and they have given that money in times of great difficulty, which would make it substantially more difficult if we could not get the money voluntarily given by the great corporations of the country. If that were true it would be a terrific blow to the principle that President Roosevelt clearly announced, that he thinks it to be of prime importance that the support of local institutions by voluntary giving be continued. Those things are the prime basis of the proposition, and that is why we urge you to do what we are asking.

I also should like to call attention to the fact that in Canada there is no difference between corporation exemptions and individual exemptions, and the limitations are set forth in our brief.

It is only because of the recent decision of the Supreme Court that we are compelled to ask for this. We do not believe it will cause any substantial loss of revenue to the United States Government, because in a great many cases before this decision of the Supreme Court those deductions were allowed by revenue officers throughout the country.

Mr. TREADWAY. I suggest that when the gentleman refers to the decision of the Supreme Court, there are so many of them of interest to Congress that it would be well to file in your brief a citation to the decision to which you are referring.

Mr. KELLOGG. That has been done, and you will find it in our brief.

I should like to say that Mr. Allen Burns, the executive vice president of the national organization of Community Chests, is the man best qualified throughout the United States to answer any detailed questions that members of the committee may desire to ask in reference to this matter, and we will deem it a privilege if there are any such questions, if you will ask him to answer them.

The CHAIRMAN. If there are no further questions any member of the committee desires to ask you, we thank you very much for your statement.

(Mr. Kellogg submitted the following brief:)

MEMORANDUM SUBMITTED BY COMMUNITY CHESTS AND COUNCILS, INC.

PROPOSAL TO PERMIT CORPORATIONS TO DEDUCT THEIR CHARITABLE CONTRIBUTIONS FROM THEIR GROSS INCOME IN COMPUTING NET INCOME FOR TAXABLE PURPOSES

This proposal is to amend the present income-tax law, section 23, "Deductions from gross income", paragraph (O) "Charitable and other contributions", by adding:

"In the case of a corporation, such contributions made within the taxable year for the use of any corporation, trust, community chest or other welfare or relief organization, fund or foundation organized and operated exclusively for charitable, eleemosynary, scientific or educational purposes (no part of the net earnings of which enures to the benefit of any private individual) as the board of directors or other governing body of the corporation may, in the exercise of its judgment, approve; the total of such contributions allowable as a deduction for such taxable year, not, however, to exceed 5 percent of the taxpayer's net income as computed without the benefit of this subsection."

This amendment to the present law would permit corporations only a more limited right of deducting charitable contributions than is now allowed to individual contributors.

I. BACKING FOR PROPOSAL

This proposal is made at the unanimous request of the 400 community chests of the country as the most effective single step possible in promoting that feature of the national administration's policy set forth by President Roosevelt in his broadcast of October 15, 1933:

"I have spoken on several occasions of the vital importance to our country that private charity in all the broad term covers, must be kept at least to the levels, and I hope even beyond the levels, of former years. At this opening of the Four Weeks, 1933, Mobilization for Human Needs, I want not only to reaffirm what I have said before, but to stress the fact that the fine teamwork in the recovery program cannot be successful if an important horse is lying back in the traces."

Adoption of the proposal now made would be the best concrete evidence that the administration means to promote private charitable contributions to its utmost.

II. DEVELOPMENT OF THE PROBLEM

The original provision allowing individuals to deduct their charitable contributions from taxable income was adopted in 1917 to promote charitable contributions for purposes connected with the war. While corporations were not allowed the same privilege as individuals, the practice of generous and wide-spread corporation contributions began in the war and has continued ever since. In exceptional instances corporations have been allowed to deduct their charitable contributions from their taxable income under the provision of the present law that "all ordinary and necessary expenses in carrying on business" are deductible. Securing such deductions has frequently been at the trouble and expense of prolonged controversy with the Bureau of Internal Revenue and of much litigation. The legal restriction has been drawn still more tightly by a recent decision of the Supreme Court in the case of the *Old Mission Cement Co. of San Francisco v. The Commissioner of Internal Revenue* (55 S. Ct. Rep. 159). The necessity of such litigation is no inducement, but a barrier to charitable contributions by corporations.

The actual practice has been increasingly to require proof from the corporations, or, in other words, to require a legal contest before the right of deducting charitable contributions can be established. Some corporations have made such legal contests but with less and less favorable result. Generally the expense of the contest equaled at least the saving made in taxes by the litigant corporation. The upshot of the whole situation is that corporations in the main do not think it worth instituting proceedings before the income-tax authorities. They have bigger fish to fry than such contests or the saving in taxes is not worth the pains and expense. If every contribution means a controversy the corporations simply won't contribute.

Consequently, Community Chests and Councils, Inc., the federation of the 400 chests of the country, receives protests and requests from chests and cor-

porations in scores of cities from Boston to San Francisco. These protests insist that corporations are discriminated against in their charitable giving as compared with individuals and that a large additional source of charitable revenue would be provided if corporations could be given only a similar right of deducting charitable contributions as is granted to individuals. Three illustrations are typical:

From the Cincinnati Community Chest, apropos of an adverse decision of the income-tax unit against one of their corporate contributors: "To test this matter out either by appeal to the Federal Commission or by suit in the courts would take so long as practically to prevent a large portion of corporations giving in the present mobilization and in next spring's campaign."

The Community Chest of San Francisco quotes as follows from a letter to them from the Westinghouse Electric & Manufacturing Co.:

"The Federal income-tax law does not permit a corporation to deduct as expense, payments made to organized charity. Individuals may make such deduction and it seems unfair that corporations should not have the same privilege for all payments legitimately made. In subscribing to your fund we wish to advise you that the above-mentioned provision of the Federal income-tax law will have a restraining influence on future payments which we make to your fund."

From the attorney of the largest corporate giver in Indianapolis:

"I make this last suggestion (right of deducting corporate contributions) because it is noticeable in our local solicitations that even our very wealthy corporations, best able to make substantial contributions, contribute but a few hundred dollars each. Possibly this may be due to lack of corporate power in many cases, but I am rather of the opinion that it is principally because no credits whatever are given against income-tax liability."

These quotations in substance could be duplicated from scores of Community Chests and their corporate contributors. The Internal Revenue Bureau has probably gone as far as it can under the present laws and yet leaves litigation facing corporations which are willing to give on an equal basis with individuals. No executive order will solve the problem. The law should be changed.

III. CORPORATIONS HAVE RESPONSIBILITY

The following figures and statement from a study by the Cleveland Community Fund are typical of the extent of the services to corporation employees by voluntary social welfare organizations.

Over one-third of employees were helped through fund.—The following table shows, first, the number of names of employees submitted by each company cooperating in the study and, second, the number of such names appearing in the clearing house file (an index of all families served by welfare agencies) because of services rendered to the wage-earner or his immediate family at any time during the past 9 years.

Concern	Number of names submitted	Served by fund agencies
Steel manufacturing.....	100	38
Home commodity distribution.....	98	37
Meat packing.....	101	43
Public utility.....	100	35
Rail transportation.....	173	62
Chemical manufacturing.....	100	35
Retail chain stores.....	100	41
Total.....	772	291

¹ 33 percent.

IV. INTERESTS AT STAKE

The stakes of corporations in this matter have been a rapidly increasing item. The history and development of corporation contributions to charity are set forth best in a report of the National Bureau of Economic Research in 1930, "Corporation Contributions to Organized Welfare Services." Before the World War corporation contributions were an exceptional occurrence in this country. They were so exceptional that the omission of their right of deduction in the original income war taxes is not surprising. The war developed these contributions immensely and Community Chests, the sequel of war charity, have con-

tinued to secure these corporation contributions until they amounted to 22 percent of all contributions to community chests in 1929. At this rate corporation contributions to community chests have amounted to as much as \$22,000,000 in a single year. At the present rate of corporation taxation, 13.75 percent, taxes have been involved of from \$2,000,000 to \$3,000,000 in corporation contributions to community chests alone. The exigencies of the depression have also induced corporations to contribute in nonchest cities, where previously corporation contributions were almost negligible. Naturally corporations are resentful at this discrimination against them in the matter of taxing their pro bono publico expenditures as any of the rest of us would be. It has become harder and harder to persuade them both to make liberal contributions and to endure this discriminatory tax.

This difficulty will be increased by the passage of the Social Security Bill. For this bill will allow corporations to deduct the payments for human welfare required by this law. The contrast with the nondeductibility of contributions to voluntary human welfare services will discourage such contributions still further.

Private philanthropy has had a progressively more difficult task to hold up its end of the national charitable responsibility during the depression. It has needed every reinforcement and argument that could be made available. If, as the President constantly states, private charity is to persist and carry its share of the load of our less fortunate citizens, its approach to corporations for contributions ought to be eased rather than made more difficult. Instance after instance could be cited of where corporations this last year have withdrawn their contributions with the taxation situation as one of their reasons. Private charity cannot carry on without the help of the corporations to which it has become accustomed. When this help amounts to between \$15,000,000 and \$20,000,000 in 400 of our American cities, it is clear why Community Chests and Councils, Inc., the representative of the private charities in these 400 cities feels the necessity for doing its utmost to remove the barrier against continued corporation generosity.

The United States Treasury also has a big stake in this problem. During the depression the Treasury has been called upon for contributions for the relief of the unfortunate as never before in the country's history. Direct appropriations for relief already amount to billions. It has been argued, and the President has taken the position that such expenditures are extraordinary and for the emergency only. How rapidly they can be decreased or finally ended depends materially on the encouragement given to private charity. The sum that the Treasury would lose in corporation taxes is as nothing compared with Treasury expenditures if private giving is not encouraged to resume in its old-time terms. The encouragement to corporate giving by the abatement in taxes should result in many times that amount of corporate contributions, and so in the ultimate easement of the Treasury in its contributions to the unfortunates of our country.

V. SUMMARY

Community Chests and Councils, Inc., is in touch with more private giving than any group in the country. Both the preceding and present administrations have cooperated with and laid upon the community chests responsibility for maintaining the bulk of philanthropic contributions to welfare services during the depression. Our whole experience indicates that nothing would help us to discharge this responsibility still further and carry our end of the load more successfully than granting to corporations a similar right of deductions of their charitable contributions as individuals have enjoyed for nearly 20 years. Such action by the Government would be proof positive of the statement made by the President to the country's philanthropic leaders September 8, 1933:

"This work is an essential part of the Government's program, the program of the people of the United States to bring us back to where this country has a right to be."

IN THE MATTER OF PERMITTING CORPORATIONS TO DEDUCT CONTRIBUTIONS MADE FOR CHARITABLE, ETC., PURPOSES IN MAKING INCOME TAX RETURNS

In my capacity as president of Community Chests and Councils, Inc., a national association embracing all of the more important Community Chests and funds of the United States, I respectfully request your honorable committee, in connection with the new income tax legislation now before it, to recommend the insertion of a

clause specifically permitting corporations, within the limits therein expressed, to deduct contributions made to community chests and other similar organizations.

I. The proposed clause is as follows:

"() In the case of a corporation, such contributions made within the taxable year for the use of any corporation, trust, community chest or other welfare or relief organization, fund, or foundation organized and operated exclusively for charitable, eleemosynary, scientific, or educational purposes (no part of the net earnings of which enures to the benefit of any private individual) as the board of directors or other governing body of the corporation may, in the exercise of its judgment, approve; the total of such contributions allowable as a deduction for such taxable year not, however, to exceed five per centum of the taxpayer's net income as computed without the benefit of this subsection."

II. *The importance of this clause.*—The special reason for the present request is the decision of the United States Supreme Court in the case of *Old Mission Portland Cement Co. v. Helvering*, decided December 3, 1934, and reported in 55 Sup. Ct. Rep. at pp. 158 to 161. In that case the court settled the law as follows:

"It is a question of fact in each case whether a donation is made to an institution conducted for the benefit of the donor's employees or is consideration for a benefit flowing directly to the donor as an incident of its business. Here the ruling of the Commissioner, that the deduction was not permissible under the statute and regulations, presumably rests upon a correct determination of the facts. *Welch v. Helvering* (290 U. S. 111, 115, 54 S. Ct. 8, 78 L. Ed. 212). The Board of Tax Appeals found that the gifts to the San Francisco Community Chest were apportioned among the charitable organizations of the city and that the gifts of petitioner were made in the belief that 'they resulted in good will toward the petitioner and increased its business.' But the Board made no finding of any direct benefit to petitioner's employees or business which the regulations contemplate. Nor was there evidence before it to support such a finding."

III. The effect of this decision is to compel a corporation which makes a gift to any charitable activity to prepare itself with legal evidence showing that such contribution results in a direct benefit to the donor's employees, or to the donor himself, as an incident of his business.

It is not enough to show in a general way that some of the donor's employees are benefited, or that in all probability the business itself is helped by the donation in question, but the corporation is compelled to make such a showing of fact as to form a basis for a definite finding by the taxing authorities that the amount of the benefit received by the donor or its employees, justifies the payment made.

IV. The results of this decision upon corporate giving, will beyond question, be highly detrimental.

During the past 10 years the corporations of the country have furnished between 20 and 25 percent of the total funds subscribed to community-chest activities.

They have done so in the belief that these contributions would be looked upon favorably by the taxing authorities and that no detailed proof of value received would be required. This, in many cases, has been the accepted practice.

The corporation can no longer rely upon any such assumption; and the amount of time, trouble, and expense involved in getting together the facts to establish the validity of such donations made in the future will be such as inevitably to cause a serious drop in the amount thus subscribed.

V. *The importance of this situation.*—The chests of the country are the collecting agents for the greater part of the country's charitable activities, other than those engaged in direct work of emergency relief.

Hospitals, Y. M. C. A. institutions, Boy Scouts, Girl Scouts, and all of the institutions heretofore supported by voluntary contributions and engaged in educational, charitable, eleemosynary, and scientific work are dependent upon the success of chest drives for their ability to continue their activities.

The financial conditions under which the country has labored for the past 4 or 5 years have been such as to make it increasingly harder to maintain the activities of these various institutions. Budgets have been cut; activities have been reduced; every possible means of excluding the nonessential and concentrating on the more essential of the various movements have been adopted. The result today is that in a majority of the communities these charitable activities are being inadequately supported.

And if the corporations, or any substantial number of them, owing to the situation created by the Supreme Court decision should cease to give, an additional misfortune of the most serious nature will have fallen upon those of us who have assumed the task of endeavoring to provide for the continuance of voluntary charity through the activities of these various institutions.

It is earnestly submitted that public policy does not require any such additional hardship and that it will be served by the insertion in the Tax Law of the clause herewith presented.

VI. *Difference between this clause and the clause as to individual deductions.*—Certain clear distinctions are made between the language of the clause now submitted and the similar clause relating to individual contributions.

Individuals are allowed to contribute to religious institutions.

That privilege is not granted to corporations by the language of the proposed clause.

Individuals are permitted to deduct such contributions up to 15 percent of their personal incomes.

In the present clause a limitation of 5 percent of income without the benefit of this subdivision is provided.

VII. *As to stockholders.*—There can, we submit, be no fear that the interests of stockholders will be unduly hampered by the proposed legislation.

The efficiency and the well being of employees of a given corporation are not only essential to their own welfare, but are economically essential to the welfare of the industry itself. Upon this point no argument is necessary, and contributions which are approved by the judgment of the corporate directors to the purpose of maintaining this personal well being of the employees are in the most emphatic manner made in the interests of the business itself.

No corporation managers will waste money in making such contributions, but all enlightened and intelligent executives will be glad to participate to a reasonable extent in the promotion of those social and charitable activities which so strongly tend to maintain the physical and intellectual morale of their employees, and the good reputation of the industry itself.

Respectfully submitted.

COMMUNITY CHESTS AND COUNCILS, INC.,
By FREDERIC B. KELLOGG, *President*.

The CHAIRMAN. The next witness is Mr. Hugo Noren, of Pittsburgh, Pa.

Will you please give your full name, your address, and the capacity in which you appear before the Committee at this time?

STATEMENT OF HUGO W. NOREN, PITTSBURGH, PA.

Mr. NOREN. Mr. Chairman, my name is Hugo W. Noren; my address is 546 Greenfield Avenue, Pittsburgh.

The CHAIRMAN. You have not said whom you represent, or in what capacity you appear.

Mr. NOREN. The Mayor of Pittsburgh—

The CHAIRMAN. Are you the Mayor of Pittsburgh?

Mr. NOREN. No; the Mayor of Pittsburgh wanted to be here, but could not come. I am a merchant, and he asked me to take his place because his wife is sick.

The CHAIRMAN. You may proceed.

Mr. NOREN. Mr. Chairman, I am so hopelessly in the minority in my philosophy that I do not expect to get much consideration.

To my mind, the Federal Government looks like an expensive tragedy.

There are two philosophies in this world, when it comes to economic philosophies, one the communistic philosophy, which is the European philosophy and which has been stamped with the name of Karl Marx. And the other one is the American philosophy, which will be eventually stamped and identified by the name of Henry George.

It is a pity that this Government should have adopted the European philosophy. As a matter of fact, the Federal Government collects no revenue of its own. All of its tax income is derived from the confiscation of wages and savings. It collects no economic rent, and as you know, Alexander Hamilton explained that there are only two sources

of revenue, land and commerce, and the Federal Government collects no land rent. So every penny you take in taxes comes from commerce and the wages of commerce and the interests of commerce.

And instead of amending the Constitution, I would point out to you that the dissolution of our United States Government is inherent in the Constitution itself, where it gives Congress the power to levy taxes on commerce and to regulate commerce, neither one of which is a Government function. The Government should be confined to its own earnings, economic rent and land rent. That is the only thing the Government produces.

To regulate commerce is not a government function; that is wholly individual, I think.

Mr. HILL. We are considering a tax bill that is limited to higher incomes taxes, inheritance taxes, and graduated corporation taxes. Those are the three subjects we are considering.

Mr. NOREN. That is the confiscation of private wealth, which should not take place. That is communistic.

The line between communism and freedom, or the American conception of freedom, is this, that the Communists confiscate private wealth for its use. The American conception of freedom is for private wealth solely, and the producers thereof, and it should be to him as sacred as life is to others. I would grant no right to Congress to confiscate private wealth under the guise of an income tax or an inheritance tax that robs widows and orphans. That is uneconomical, and no government can continue to live very long if you continue that policy.

For the first 70 years the Federal Government lived on \$10 annual taxes per family of five. In 1932, before the big spending spree had started, it collected \$170 per family of five. Where are you going?

That is \$160 more per family of five than was collected for the first 70 years. It is \$160 more than was necessary for the first 70 years.

That is what I want to point out, that we are practicing communism, although denouncing it at the same time.

In the early days we had the old American freedom where every man had a right to his own property and it was not confiscated as it is now.

Mr. HILL. Would you like to go back to the first 70 years again?

Mr. NOREN. Yes. If you will read article VIII of the Articles of Confederation you will find the true source of Federal revenue. It was stipulated in that article that the Federal Government should levy on land values, and such tax paid by each State in proportion to the population of the State. There is your natural revenue, and there is plenty of it.

Mr. VINSON. I wonder why the fathers did not write that in the Constitution.

Mr. NOREN. The Constitution was largely made by ground racketeers.

Mr. VINSON. The Articles of Confederation went out of fashion.

Mr. NOREN. They took care of themselves.

Mr. VINSON. What business are you in?

Mr. NOREN. I keep a little drygoods store; I am a counter hopper.

Mr. VINSON. How long have you been there in that business?

Mr. NOREN. I have been 24 years in that business.

Mr. VINSON. Considering the last 2 or 3 years has your business been better?

Mr. NOREN. No; it has been about the same. We have continued the Hoover policies, and Hoover continued with the policies of former Presidents, and we all are communistic; that is the trouble.

Mr. VINSON. You may use that word, but I am not going to let you stamp that on me.

Mr. NOREN. Pardon me.

The CHAIRMAN. You take the position that collection of taxes out of wealth, property, or income is confiscation of property when collected for governmental purposes?

Mr. NOREN. Yes.

The CHAIRMAN. Then if it is collected out of land, why is not that confiscation of property?

Mr. NOREN. Land is not property. That was here for millions of years before we appeared on the scene, and we cannot increase it; we can alter it. That is a product of God Almighty, and land rental is a product of society. No one man can produce uneconomic land. When two or three men get together, land rises, and that is the natural revenue of the Government.

The CHAIRMAN. You went to school to a man by the name of Henry George?

Mr. NOREN. Yes, indeed; and he is the patron saint of the United States.

Mr. KNUTSON. Do you have any information as to the number of farms that have gone back to the counties because of the nonpayment of delinquent taxes?

Mr. NOREN. Sure.

Mr. KNUTSON. I take it from what you say that you would like to step up that process of turning land back to the Government for taxes.

In our section it is a very serious problem. Our landowners are complaining that taxes are confiscatory. And yet you come before us and ask us, in effect, to exempt such men as Henry Ford and John D. Rockefeller and the Andrew Carnegie estate from taxation, and take the load that you take off of their shoulders and pile it upon the shoulders of the farmers?

Mr. NOREN. If you go down to the bottom you will find that all of your great fortunes are based on land of immense value, and unless they are so based they will disappear when superior management arises to operate them.

Mr. KNUTSON. Just a moment; carry that point out further. You claim we are confiscating property under the present system, and that that is communism?

Mr. NOREN. That is, is it not?

Mr. KNUTSON. Have we confiscated very much from Henry Ford? He is worth a billion dollars, and if we had not taxed him he probably would have been worth 2 billion.

Do you think it would be desirable to have a man in this country who owns \$2,000,000,000?

Mr. NOREN. Ford was a miracle man. He produced a car better than anyone else produced, better than anyone else could do it, and sold it for less than anybody else could do it, and at the same time paid more wages than anybody else paid.

That is unfair, to take him as an exception, and I do not care how large his fortune grows, so long as it does not grow at my expense.

But coming back to this other point.

If a man has an average income of \$2,000 per year he will not spend all of that \$2,000 in the market for shoes, clothing, food and housing. He will buy \$1,000 worth of shoes, clothes, food and housing, because \$1,000 of the \$2,000 is taken up in taxes, indirectly.

If I buy a package of cigarettes and I pay 10 cents for the package, I pay 4 cents out of the 10 for the cigarettes and 6 cents for taxes.

Mr. KNUTSON. You could roll your own and you would not have to pay that tax.

Mr. NOREN. In some places they impose a tax on cigarette paper.

Mr. VINSON. You have to pay a tax of 18 cents a pound on the tobacco that goes into "roll-your-owns".

Mr. NOREN. People do not know they pay those taxes, but they do pay them, indirectly.

A great merchant of New York said to me one day that he believed that one-half of the price of all goods sold at retail is taxes, indirectly, and the expense that the taxes cost.

We have a sugar tax of 2 cents a pound. I suppose refined sugar would cost 2 cents a pound. But you pay 5 cents. There is a 100-percent tax.

So, if you take a farmer who gets \$1,000 income, and he buys \$500 worth of goods, he also buys \$500 worth of taxes, only he does not know it.

That is a perfect illustration of what William Pitt said. He said if you put a 2-penny tax directly on the people you will have a revolution. But you can take the last rag off their backs and the last morsel of food out of their mouths by indirect taxation and you will only have a complaint about hard times. That is what we have had. But we have not destroyed that tax for the Federal Government.

Mr. TREADWAY. How are you going to have that, with all these extravagant bills being passed, and a deficit of three and a half billion dollars in a year's time?

Mr. NOREN. I would abolish the Federal Government, all except the United States Senate and the United States Supreme Court. [Laughter.]

Mr. TREADWAY. Then we would be out of a job.

Mr. NOREN. That is what I am here for, to put you out of a job. [Laughter.] If you think I came here to convince you, you are mistaken. I came here to convince somebody that you should all lose your jobs. The House of Representatives is a useless body. [Laughter.]

Mr. TREADWAY. It may be so very shortly.

Mr. NOREN. That is where the shame is, and it is on me. I have been a Democrat for 44 years. I was the only Democrat in our precinct, and they wondered what kind of an animal I was.

Mr. TREADWAY. When we have a House full of Democrats you ought to feel at home.

Mr. NOREN. I do not know but that they may be worse than the Republicans. But when we have Socialists, Democrats, and Republicans all turning Communist, you see how much out of place I am.

The CHAIRMAN. We thank you for your statement.

The CHAIRMAN. The next witness is Mr. George L. Marklan, representing the Philadelphia Board of Trade.

Will you give the reporter your full name, your address, and state the capacity in which you appear?

STATEMENT OF GEORGE LEWIS MARKLAN, OF PHILADELPHIA, PA., PRESIDENT, PHILADELPHIA BOARD OF TRADE

Mr. MARKLAN. My name is George Lewis Marklan; I am president of the Philadelphia Board of Trade.

Mr. Chairman, I heard one member say a while ago that perhaps Henry Ford would have had \$2,000,000,000 instead of 1 billion if he had not been taxed. I am not criticizing that fact.

We are living in the greatest age of our history. There are more things more widely distributed in the hands of more people than ever before or than anywhere else in the world. We should now be building monuments to men like Carnegie, Rockefeller, Edison, DuPont, Mellon, Ford, Wanamaker, Baldwin, Vaclain, Westinghouse, Schwab, Cassatt, Atterbury, Bardo, Frick, Ferguson, and a thousand and one other like them who have created and distributed more wealth to more people than all the professors, socialists, communists, and their ilk ever dreamed of.

Such monuments with proper legends would be an inspiration to the youth of our Nation for accomplishment through the expenditure of mental and physical effort during their early years. Wealth is things, and the more things we produce the more wealth we have to divide.

The certainty of reward for effort, mental, and physical, is the reason why the people of this country have built up a wealth of over 560 billions of dollars, reckoned on the old standard of gold of 23.22 grains to the dollar.

Take away that reward and the effort stops; the source then dries up. It is not the business of the Government to support the people.

It has been claimed that 2 percent of our people receive from 60 to 80 percent of the national income. This is not true. Eighty-five percent of the national income goes to those who work for a living, and the remaining 15 percent is the increment for capital investment, or it goes to return on capital investment.

If you confiscate all of the income of all of the people receiving \$5,000 a year or more and distribute it among the other 120 million people, they will each get \$35 more than they have.

Wealth is more equitably distributed in this country than anywhere else in the world. There are 22,000,000 automobiles on the streets and highways of this country, and about 70 percent of the people who work have bathtubs, electric lights, and radios in their homes. Men drive to work in their cars. A peculiar thing has happened in Camden, N. J. The strikers in the plant of the New York Shipbuilding Co. are on relief, and they are now demanding of the relief administrators that they be permitted to drive their cars.

We are attempting to tax people who work, who create wealth and distribute wealth—we are attempting to tax them to support the incompetents and the ne'er-do-wells, and the will-nots, and it is time we stopped it. More than half of the invested capital in this country is owned by people of moderate incomes.

Manufacturing concerns in Pennsylvania are now taxed approximately 25 percent of their profits before they are allowed anything. That includes the Federal and State taxes together, and then they are allowed 12½ percent of the balance before the excess profits taxes are applied. Between the Federal and the State Governments the original tax is 25 percent, and if you have that, what are you going to have left for capital investment if you continue this method of taxation of those who create wealth. Industry creates all the wealth; there is no other method.

Mr. KNUTSON. The witness appreciates the fact that as the cost of government increases we have to have increased taxes, and the only way we can reduce taxes is to reduce the operating expenses of the Government.

We cannot spend three or four hundred million dollars on Muscle Shoals, and have the Federal Government put in Frigidaire refrigerators and charge it up to the taxpayers of the United States and expect to get a reduction in taxes.

Mr. TREADWAY. Does not my colleague overlook the fact that you expand the public debt every time you do that?

Mr. MARKLAN. The dollar circulates only through industry, and industry is a delicate mechanism not to be tampered with. Industry creates all the wealth and distributes it. I suggest that you study industry and its needs rather than how you can milk it and blame it for everything under the sun. The banker, lawyer, bond and stock broker, department store, chain store, retail store, and realtor all thrive when the wheels of industry turn.

So, let us study how to keep them turning. Certain low tariffs will not do it; extravagant Government and consequent high taxes will not do it. We might get along with less taxes; perhaps that would help and perhaps it would do it.

Let us study industry. Do you realize that nobody works, nobody has anything, unless industry produces wealth?

It is the Fords and the Rockefellers and such men who have created this country, the greatest country in the world. There is nothing equal to it anywhere. Do we stop to think about those things?

My God, what are we doing? Now we are going to tax wealth and that which gives us wealth. What are you going to do with them?

We talk about estate taxes. There are several glaring examples where property was seized for taxes they still owed the Government where they could not secure sufficient money from the sale of things to meet the demands of the Federal Government. Where are we going? Why do we not stop it, and will we not stop it when we sit down to think about it?

The CHAIRMAN. What are you referring to when you say sufficient money could not be secured to meet the demands of the Federal Government. Have you any concrete cases of that kind in mind?

Mr. MARKLAN. Yes, you have them in the records in Washington.

The CHAIRMAN. I am not talking about what we have here; I am talking about what you have. You have not given us any concrete cases.

Mr. MARKLAN. I could get the details and will be glad to have them forwarded to you. That is a fact.

Mr. REED. I ask that the witness have the privilege of putting that in the record as a part of his statement.

Mr. MARKLAN. I would be glad to forward it to you.

Mr. HILL. You say that Henry Ford and other large investors made this country?

Mr. MARKLAN. Yes; there is no question about it.

Mr. HILL. You do not think there is any question about it?

Mr. MARKLAN. There is no question about it.

Mr. HILL. Do you think that the opportunities that Ford had under our governmental plan and the resources of the country that we have here had nothing to do with making this country great?

Mr. MARKLAN. Oh, yes.

Mr. HILL. Why have there not been Fords and other men of his type to make other governments than the United States great?

Mr. MARKLAN. Because they did not have a Constitution such as we have.

Mr. HILL. The country made Ford instead of Ford making the country.

Mr. MARKLAN. The privileges are there, if they would extend the mental and physical effort that is necessary. But you cannot do it working 6 hours a day and 5 days a week. Rockefeller and Schwab, and men like them, worked 18 and 20 hours a day 7 days a week. They made more men wealthy than any other individuals, and you cannot do that without working.

Mr. HILL. How about the great mass of workers; did they make them wealthy?

Mr. MARKLAN. Yes; they have more wealth than any other nation in the world.

Mr. BROOKS. Would you like to have the Nation pay the wages that Andrew Carnegie paid his men?

Mr. MARKLAN. No; what happened in there was the evolution and the progress of the times. Laws did not set hours of work. Men realized that the man who works was an asset.

Mr. BROOKS. You want the laboring man to work the way he did for Andrew Carnegie and to live the way he had to live then?

Mr. MARKLAN. If it had not been for Andrew Carnegie there would not have been any work there.

Mr. BROOKS. Oh, yes; there would.

Mr. MARKLAN. Are you sure? If you study it you would not make a statement like that. Andrew Carnegie——

Mr. COOPER. How much thought have you given to the wild and foolish statements you have made?

Mr. MARKLAN. Have I made any?

Mr. COOPER. All of them.

Mr. MARKLAN. Do you work for a living? Are you in business?

The CHAIRMAN. The time of the gentleman has expired.

The next witness is Mr. John Day Jackson.

STATEMENT OF JOHN DAY JACKSON, PUBLISHER AND PROPRIETOR OF THE NEW HAVEN REGISTER

Mr. JACKSON. Mr. Chairman and gentlemen:

I feel at a slight disadvantage after some of the rather general testimony and discussions of taxation in general, and I hope that what I have to say, which is directly to the point, and which will deal with the single matter of inheritance taxes, may receive the consideration

of the committee in an absolutely nonpartisan way, which I feel that some of the speakers who have preceded me have not quite been justified in expecting.

Mr. HILL. I am sure the committee will be glad to hear you on that subject.

I suggest that he be permitted to make his statement without interruption.

Mr. JACKSON. Thank you.

The CHAIRMAN. Proceed, with the understanding that you will not be interrupted. How long do you think you will take, Mr. Jackson?

Mr. JACKSON. I should not think more than 15 minutes.

The CHAIRMAN. All right, you are recognized for 15 minutes.

Mr. JACKSON. I feel very certain that the committee will be interested in what I have to say. I am very familiar with the subject of taxation, having studied it for years, and I think I really can speak upon the subject, and, while I may oppose the inheritance tax, I have a very definite suggestion to make in case you gentlemen decide to incorporate an inheritance tax in your bill.

We were all very much startled a few weeks ago by the emanation from high quarters in Washington that it was proposed to impose on taxpayers after the payment of an estate tax a Federal inheritance tax, and a Federal inheritance tax that ran in the various brackets from 100 percent to 7,400 percent, the rate of the British inheritance tax. When the estate taxes were first enacted, there was a very distinct understanding in Congress, as the speeches will show, and in the Treasury Department, as well—and I talked with the then Secretary of the Treasury on the subject—that a general estate tax was to be considered as of the nature of an inheritance tax. In other words, the estate was naturally inherited by the heirs. There was some difficulty, and there is some difficulty always, as you lawyers know, in assessing an inheritance tax on account of life tenancies, and so forth.

We went on with the estate tax up to this present time. There were State inheritance taxes but no Federal tax. Last summer a very able commission was sent abroad to make a study of the British tax system. They discovered, with all this talk, that American taxes must come up to the British level, that our estate tax, which began and begins at a lower level than the British, very soon reaches it and ultimately passes it, and that the British Government imposes a flat 1 percent inheritance tax on the next of kin.

The report is a little ambiguous in its language, but it makes the claim that the inheritance, or legacy tax, as they call it, subsequently, the estate tax in Great Britain is 1 percent on the next of kin, the heirs of blood, and next comes a flat 5 percent on collateral, and 10 percent to outsiders.

When we read of this extraordinary proposal to start inheritance taxes after our estate taxes running up as high as seventy-odd percent, some of us who had individual businesses that we had built up ourselves and wanted to pass on to our families, were likely to find ourselves in a position where our own families and those perhaps who had worked with us in the business would be prevented from inheriting by virtue of this secondary tax.

I have just two or three very brief points to make. You see, gentlemen, we have a very peculiar situation, if we introduce a Federal

inheritance tax here in this country. In Great Britain they have no gift tax. We have a gift tax. In Great Britain they have an estate tax which parallels, more or less, and finally exceeds, ours.

Now, if a business, or if the estate of a man in business is held by the gift tax, so that he cannot give anything to his heirs, without paying a penalty which runs approximately up to an inheritance tax, and if, at his death, the estate tax is levied on the corpus of the estate, and then, on top of that, before you are free and released from any obligations to the Federal Government, you get an inheritance tax which jumps, in the various brackets, up to 74 times the tax imposed in Great Britain, it is certainly a most startling proposition.

Mr. VINSON. Mr. Chairman, will the gentleman yield for a correction?

Mr. JACKSON. Yes, sir.

Mr. VINSON. I understood you to say with reference to the estate taxes that our system and the British system begin at about the same place.

Mr. JACKSON. No, sir. You misunderstood me, I am afraid. I said that they worked up, or I meant to say at least that the British estate tax begins at a very low figure.

Mr. VINSON. The British estate tax begins at £100, or \$500.

Mr. JACKSON. Yes, sir.

Mr. VINSON. Whereas our estate taxes, as you have stated, begin at \$50,000.

Mr. JACKSON. That is true, but you do not get very far up the line, in case of a business estate, where the British estate tax is only one-third more than ours, and, when you get higher up, our estate tax is higher than the British.

Mr. VINSON. When you start under the British system you start at 1 percent on estates between \$500 and \$2,500, roughly.

Mr. JACKSON. Yes, sir.

Mr. VINSON. And it goes to 50 percent on estates in excess of \$10,000,000.

Mr. JACKSON. Yes, sir. As soon as you reach an estate of \$1,000,000, which would not be an extraordinary estate for a man in business that had developed it over 20 or 30 years, the difference between the British estate tax and ours is very slight. Of course, the difference between a 1-percent inheritance tax, coming after that, and an inheritance tax running up in the higher brackets, up to 30, 40, or 50, at that point, and ultimately running up to 75, would give you a very much higher tax than in Great Britain.

Mr. VINSON. On \$1,000,000 the United States tax at the present time is \$169,000, and in England the British tax is \$240,000.

Mr. JACKSON. Yes, sir; about three-quarters.

Mr. VINSON. Yes, sir.

Mr. JACKSON. Now, gentlemen, this question of collecting this tax and collecting it out of the estate, without causing a terrible loss to the estate and to the heirs, is not an academic question. The Treasury tax experts go on the assumption that there is an estate, and it is all perfectly liquid, and you can chop off some for an estate tax and some for local inheritance taxes and some for Federal inheritance taxes, and you do not get very far down the line before you find out that the owner of an individual business, with his own investment in his home and other nonliquid investments, is in the position

that the whole estate is jeopardized by the fact that you have to liquefy it.

Now, the hardship in liquidating an individual business, to say nothing of the injustice of it, is extremely great. A business of that size is not large enough to make a general corporation, I mean a corporation in which there would be any considerable number of investors. The result is that the family has got to sell the business to whomever they can find to buy it, perhaps even to their competitors, and perhaps even the people who are not actually in the business at the time.

Mr. TREADWAY. May I interrupt you, Mr. Jackson, right there?

Mr. JACKSON. Yes, sir.

Mr. TREADWAY. In your studies of these subjects—and I can readily see that you have devoted a great deal of attention to them, and are well-versed in them from that study—have you tried to see what percentage of large estates, let us assume a sum of \$500,000, will be liquid?

For instance, a man may die and the inventory may show \$500,000. Have you any idea what percentage of that \$500,000 statistics will show is liquid?

Mr. JACKSON. No, sir, Mr. Treadway; I have not any statistics to show, but I can say this—

Mr. TREADWAY. You were talking along that line, and I was wondering to what extent you know that.

Mr. JACKSON. I can say this: I have been a bank director in two banks, and only resigned several years ago. I can say also that as a publisher of a newspaper, having lived in this community practically ever since I graduated from college there, that practically no estates of any man that is in business are liquid. As a matter of fact, as a bank director, I ran across no end of manufacturing borrowers of the kind I am speaking of. Whether they were incorporated or not makes no difference. I mean small family-held concerns that had borrowed money and had not repaid it 5, 10, 15, or 20 years afterward.

In other words, it hung as a mortgage on their property. You could not go to a bank and borrow that money, probably, if the bank knew in advance that it was going to be a capital investment and not a loan.

As to the rest of the property, the homes, they are practically unsaleable at any price. They are unsaleable today.

Mr. VINSON. Your argument with reference to liquidity as it affects inheritance taxes is just as applicable to the question of estate taxes?

Mr. JACKSON. Yes, sir. I am glad you brought out that point, because it simply makes a bad situation worse. It is no easy thing, gentlemen—and I have settled a number of estates myself, and, as I say, I was a bank director for a great many years, of one of the oldest banks in New Haven, and I have studied law, and I have studied the law of wills and trusts at Harvard University, and I feel that I understand this thing not only from the theoretical side but from the practical side—and I repeat that it is extremely difficult, with the estate tax in the form it is today, without adding direct Federal inheritance taxes on top of it, to liquidate that estate withing a reasonable time, without great sacrifice.

And I add further—and every gentleman of the committee who is a lawyer knows it perfectly well—that there is no justification for holding estates open indefinitely in order to try to pay the taxes.

I took that matter up with the Treasury the other day, with one of the Treasury experts. One of them replied, "If we have any inheritance taxes, we may give 8 to 10 years in which to pay the tax."

Gentlemen, that is not taxation, but a capital levy. If you are going to put on an estate tax, and then on top of that a Federal inheritance tax, running up into the high brackets, and tell the executors, when they are through, if they can keep the estate going 8 or 10 years, some of the estates very likely realizing nothing, in the hope that at the end of that time they will be able to pay the tax and turn the property over to the heirs, what a ridiculous situation it is.

You have got an impossible situation from a practical standpoint. What are the heirs to do in the meantime? Are the heirs to go on indefinitely waiting for the settlement of this estate?

MR. KNUTSON. Mr. Jackson, it happens that you and I are both publishers, so that we can discuss it from our angle.

MR. JACKSON. Yes, sir.

MR. KNUTSON. I take it that you have spent the greater part of your life in building up your paper.

MR. JACKSON. Yes, sir.

MR. KNUTSON. And you would like to have the paper remain in the family?

MR. JACKSON. Gentlemen, I came to Washington, after studying and graduating at Yale and taking a special law course in Harvard University, and studying at the University of Berlin, and studying at the University of Paris, I came here to Washington and started on a salary of \$10 a week. After serving here as a correspondent, doing work on such papers as the New York Evening Post and the New York Journal of Commerce, and doing additional work for the New York Times and the Boston Herald, I went back to New Haven, took up a bankrupt paper, built it up, and made a success of it, and I have been there ever since.

I have two sons now in my business, and I shall have several more. I have five sons, two of whom are already with me in the business, as I say.

MR. KNUTSON. Right there, Mr. Jackson, if this program goes through, it might be necessary for your heirs to sell the paper in order to get money enough to pay the taxes, unless you carry a big cash reserve, because there is nothing that is less liquid than a newspaper.

MR. JACKSON. True.

MR. KNUTSON. Your equipment consists of a press, linotype, goodwill, subscription list, and you could not go around and hawk it around piecemeal, but it would have to be sold in its entirety.

MR. JACKSON. Yes, sir.

MR. KNUTSON. That is, in order to bring the maximum value.

MR. JACKSON. Of course, that, Mr. Knutson, would depend entirely upon the economic conditions that prevail at the time. I was looking up the other day figures, for instance, for securities, a general list that was published in one of the New York papers.

Over the last 2 years there has been a variation—in fact, over the past year and a half—there has been a variation in securities from 50

to 100 percent in most of the standard stocks that are sold on the New York Stock Exchange, or that are sold on the local exchanges of such cities as Hartford, Cleveland, Chicago, and Boston. Only last week, within the course of one week, the stock of the Southern Railway fluctuated from a value of, we will say, 2, to a value of 4.

Now it is all very well, of course, to say that an executor is bound, as he should do, certainly, under these dangerous laws, to take action, and that he should immediately liquidate the estate, right off, the next 24 hours, at least to the extent of his taxes, but it cannot be done.

There are estates—and everybody in the Treasury knows it, and a lot of this committee knows it—which were rendered insolvent by the sudden slump in value.

The CHAIRMAN. Who ever heard of an estate being liquidated in 24 hours, and how could it be done?

Mr. JACKSON. It could not be done.

The CHAIRMAN. Who suggests it?

Mr. JACKSON. I make the statement that with investments in other securities, if a man happens to die at a very unfortunate time, and the estate cannot be liquidated, an estate in which there is a large amount of securities which cannot be liquidated very promptly, as you know, the tax is on the estate as of the time of the death of the decedent, and unless it be liquidated very promptly, there is a very serious danger of the equity in the estate, after debts and after the Federal income tax—if that remains unpaid, and after the heavy estate tax, and after the State inheritance tax, there is a very serious danger that that estate may be wiped out altogether.

The CHAIRMAN. That is true as to personal or corporate obligations, and debts, but that does not prevent a man creating obligations and debts, and if he does, there are laws in the various States—and I think the Federal Government might give 2 years, as is done in my State—to liquidate and pay the assets. There is no 24-hour business about it.

Mr. JACKSON. I am not saying that they have got to do it in 24 hours.

The CHAIRMAN. You never heard of it being done in 24 hours, or 24 weeks?

Mr. JACKSON. I think, Mr. Chairman, you misunderstood me.

The CHAIRMAN. No; I did not.

Mr. JACKSON. What I meant to say was——

The CHAIRMAN. I do not know what you meant to say.

Mr. JACKSON. May I say what I meant to say?

The CHAIRMAN. Yes, sir.

Mr. JACKSON. What I meant to say was that with the heavy estate taxes, with rapidly ascending brackets, followed by heavy inheritance taxes, with rapidly ascending brackets, will take up such a large corpus of the estate that the margin is so comparatively small that the only wise course for the executor was, if he could, to liquidate the estate instantan, and I meant to say that it could not be done.

The CHAIRMAN. Have you about completed your statement? You have been interrupted some, I realize.

Mr. JACKSON. Yes, sir; however, I have had a good deal of interruption.

The CHAIRMAN. We will be generous with you.

Mr. JACKSON. All right. I am entirely practical in this matter.

The CHAIRMAN. You have made a very fine statement.

Mr. TREADWAY. Before you continue to your next point, Mr. Jackson, I asked you the percentage of liquid assets in the average estate. I find in connection with a report made by the Chief of Staff of the Joint Committee on Internal Revenue Taxation, printed in 1933, there is a very illuminating schedule on that very point, showing estates from nothing to \$1,000,000, and from \$1,000,000 to \$10,000,000, and the items composing them. I would suggest, in connection with my inquiry of Mr. Jackson, that that table be printed.

The CHAIRMAN. Without objection, it may be printed in the hearing.

(The table referred to is as follows:)

Summary of taxable estate tax returns of resident decedents for the 7-year period, 1922 to 1928, inclusive

Gross estate	Size of net estate after exemption			
	0 to \$1,000,000	\$1,000,000 to \$10,000,000	Over \$10,000,000	Total
Real estate.....	\$3, 063, 476, 136	\$576, 544, 931	\$92, 553, 264	\$3, 732, 574, 331
Government bonds, exempt.....	91, 339, 817	139, 066, 261	66, 958, 447	297, 264, 525
Government bonds, partially exempt.....	429, 556, 762	104, 779, 965	16, 856, 759	551, 193, 486
State and municipal bonds.....	294, 151, 025	335, 757, 624	67, 355, 871	697, 264, 520
All other bonds.....	998, 432, 967	320, 997, 656	106, 764, 262	1, 426, 194, 885
Corporate stock.....	4, 044, 113, 854	2, 316, 063, 760	775, 161, 513	7, 135, 339, 127
Mortgages, notes, cash, insurance.....	2, 228, 347, 696	454, 144, 274	60, 948, 021	2, 743, 439, 991
Jointly owned property, etc.....	925, 626, 880	349, 816, 742	95, 216, 933	1, 370, 660, 555
Transfers within 2 years of death.....	365, 417, 172	124, 099, 379	22, 683, 241	512, 199, 792
Power of appointment, etc.....	75, 256, 798	28, 068, 509	12, 580, 057	115, 905, 364
Property taxed within 5 years.....	245, 944, 812	68, 902, 545	28, 947, 036	343, 794, 393
Total gross estate.....	12, 761, 663, 919	4, 818, 241, 646	1, 346, 025, 404	18, 925, 930, 969
Deductions allowed.....	2, 539, 168, 593	891, 652, 362	319, 678, 814	3, 750, 499, 709
Specific exemption.....	3, 572, 110, 000	118, 450, 000	3, 150, 000	3, 693, 710, 000
Total deductions.....	6, 111, 278, 593	1, 010, 102, 302	322, 828, 814	7, 444, 209, 709
Net taxable estate.....	6, 650, 385, 326	3, 808, 139, 344	1, 023, 196, 590	11, 481, 721, 260
Tax at Federal rates.....	176, 268, 100	342, 371, 450	201, 721, 647	720, 361, 197
Credit for State taxes.....	44, 882, 942	93, 853, 527	62, 755, 753	201, 492, 222
Net Federal tax.....	131, 385, 158	248, 517, 923	138, 965, 894	518, 868, 975
Number of returns.....	60, 855	1, 757	47	62, 659

Mr. REED. I would like to have inserted in the record at this point a letter from Mr. H. L. Parker, Chief of Staff, dated February 2, 1931, addressed to Hon. Willis C. Hawley, Chairman, Joint Committee on Internal Revenue Taxation, House of Representatives, Washington, D. C., making recommendations to overcome the very difficulty that Mr. Jackson refers to. It is on page 254 of the document entitled "Federal and State Death Taxes, Reports of the Joint Committee on Internal Revenue Taxation."

The CHAIRMAN. Without objection, it is so ordered.

Mr. TREADWAY. The table to which I referred just precedes that.

(The letter referred to is as follows:)

LETTER SUBMITTING PLAN FOR TAXATION OF DEPRECIATED ESTATES

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON INTERNAL REVENUE TAXATION,
Washington, February 2, 1931.

HON. WILLIS C. HAWLEY,
*Chairman Joint Committee on Internal Revenue Taxation,
House of Representatives, Washington, D. C.*

MY DEAR MR. CHAIRMAN: Under certain circumstances our Federal estate-tax law imposes taxes so unjust and so unreasonable that the failure on the part of Congress to correct the situation would appear likely to result ultimately in a strong reaction against the tax as a whole.

The unjust and unreasonable taxes, referred to above occur in cases where there is a large decrease in value between the date of the decedent's death and the date when the tax is paid. The law provides for the payment of the tax 1 year after death. Extensions of time for payment can be given but must bear 6 percent interest after the 1-year period.

The amount of the estate tax as well as the rate imposed under the present law is entirely dependent upon the facts existing at the date of the decedent's death. If the tax could be paid in kind no inequity would result from a sudden decline in value between the date of death and the date of payment of the tax. For instance, if a man had 30,000,000 sheep and the estate-tax rate was 20 percent, then the tax would be 6,000,000 sheep and the decedent's estate would have 24,000,000 sheep to distribute to the heirs, no matter at what time the distribution was made. The trouble comes when we reduce property to money value and collect the tax in money on the basis of the value at date of death. Suppose the sheep were worth \$1 each at the time of the decedent's death. The value of the estate in such a case would be \$30,000,000 and the tax at the rate assumed, would be \$6,000,000. Now, if the price of sheep falls to 20 cents each at the date of payment of tax, the total value of the estate shrinks to \$6,000,000, and under our system the tax, in spite of this situation, still remains at \$6,000,000. The result is, therefore, that in such a case the estate would be entirely confiscated by the Government.

At first sight it might be thought that such a decrease in value would practically never occur. This is not the case. During the stock market collapse in October 1929 values in some cases decreased to as great an extent as are indicated by the above example. I have also examined certain actual cases which have been supplied by the estate tax division of the Bureau of Internal Revenue, and, while I find no examples quite as severe as the above, I do find a number of cases where the shrinkage in stock values has exceeded 60 percent. It is my thought that Congress never really intended to deprive the heirs of a fair portion of the estate. The maximum rate of 20 percent in the case of estates over \$10,000,000 would indicate that there is some foundation for such a belief.

It appears that the situation complained of could be remedied in a fairly simple manner by providing that the estate-tax rate should be determined as at present according to the value of the net estate at the date of death and by further providing that such rate should be applied for the purpose of ascertaining the amount of the tax to the net value of the estate 1 year after death. A hypothetical example will probably bring this out more clearly.

Suppose a man died in September, 1929 and his net taxable estate at that date amounted to \$30,000,000. The tax on such an estate would be \$5,353,500, which represents a composite rate of 17.845 percent. Now, suppose that 1 year after death, namely, in September, 1930, the net value of the estate is \$6,000,000. Under our present system the tax would be \$5,353,500 as before and this tax would consume more than 89 percent of the estate leaving only \$646,500 for distribution among the heirs. My proposition is that in such a case we should apply the composite rate of 17.845 percent to the \$6,000,000, giving us an estate tax of \$1,070,700. It should be noted that this tax is considerably more than the tax on a net estate of \$6,000,000 which remained at such constant value both at date of death and at date of payment of tax. In this last-named case the tax would only amount to \$653,500. The suggestion, therefore, does not give nearly as much relief as might be contended for since the first estate would pay a tax of \$1,070,700 on an estate of \$6,000,000 valued 1 year after death, while the second estate would pay a tax of \$653,500 on an estate of \$6,000,000 valued 1 year after death. There is appended a diagram which graphically depicts the facts brought out in this hypothetical case.

The situation in respect to the payment of the estate tax by the administrators or executors of the estates of persons dying shortly before the stock market crash of October 1, 1929, is now becoming critical. The date of payment in these cases was during the summer and fall of 1930, and, therefore, it is only by extensions of time granted by the commissioner that the impending tax, which will take the major portion of these estates, is for the time being averted.

I would respectfully recommend that the situation, briefly described above, receive the consideration of the joint committee at the first opportunity.

Very respectfully,

L. H. PARKER, *Chief of Staff.*

Mr. JACKSON. I will conclude my statement, sir:

My conclusion is that in view of the fact that we have State inheritance taxes, which can only partially be deducted under the basis of the present law, that we should not have any Federal inheritance tax that exceeds the British federal inheritance tax of 1 percent flat.

My suggestion is that if you are going to have any Federal inheritance tax, that you divide it into classes and graduate it, as is true of all the inheritance taxes that exist anywhere else on the face of the earth. There is not a single State in the Union, not a single one of the dominions of Great Britain, or Great Britain itself, that fails to draw the distinction between the inheritance of the next of kin and inheritance to collaterals.

Mr. VINSON. Of course, the reason for that distinction is the natural purpose in a person acquiring property, if it can go to his next of kin less encumbered with tax than would be the case as to collateral or strangers in blood.

Mr. JACKSON. Yes. Of course, the one thing which actuates us all is security first for ourselves in our old age and protection for our families. We all have a reasonable ambition, and we want to succeed. We do not want to be put in a position where the law places us in a position that where we build up a business, the greater it is the more it is endangered because of the danger in the estates as they get into the higher brackets.

It seems to me that it is the best evidence, gentlemen—and I am speaking now with perfect respect—some of these preceding speakers have not, and it is somewhat embarrassing to come in after that, because I feel that some gentlemen have taken advantage of the opportunity to come here to be rather spectacular, and I have not come here for any such purpose at all—

Mr. VINSON. If I understand you correctly, you suggest at least three classes of inheritance.

Mr. JACKSON. Yes, sir.

Mr. VINSON. Next of kin, collateral, and strangers in blood.

Mr. JACKSON. Correct.

Mr. VINSON. You suggest that different rates be levied, the lower rate for those next of kin, the next higher rate to be collateral, and the higher rate to be strangers in blood?

Mr. JACKSON. Yes, sir. Graded into those three classes and preferably, in view of the rising brackets in the estate tax, that it parallel the British tax, it being a flat tax in each one of those groups which you speak of.

Mr. VINSON. What would be your objection to having it graduated upon each class?

Mr. JACKSON. The only objection to that, sir, would be, as I pointed out before, that estate taxes, to be collected from a nonliquid estate,

together with your State inheritance taxes, together with your debts, and so forth, that it means usually the income tax of the preceding year, and any mortgages or any debts that you may have, plus the administration expenses, are such that the margin to the estate is endangered, and especially so if that margin comes near to touching either a man's home—I mean the aggregate of the man's home and the man's business.

In other words, if a man dies and has \$1,500,000 lying right there in cold cash, and the Federal Government, with estate taxes and with inheritance taxes, and the States, with inheritance taxes, and all that, and that was chopped off, there is still something definitely left of it. But if, as Mr. Treadway pointed out, the estate—and all business estates, gentlemen, in my experience, and I have had practical experience, are more or less nonliquid—the estate is in such shape that this liquidating constantly cuts into the value of the estate and reduces the value to the direct heirs.

MR. VINSON. The same argument applies to your flat rate. At 6 percent, say, you have a minimum of an exemption of \$100,000.

MR. JACKSON. Yes, sir.

MR. VINSON. And you start with a flat rate there, and it goes clear through. Let us come back to the \$100,000 exemption, and say you have a minimum rate up to \$200,000, and then step it up a reasonable percentage.

MR. JACKSON. Yes, sir.

MR. VINSON. Now, between, say \$200,000 and \$300,000, you have \$100,000 more property, and if the increase is reasonable, it seems to me that if a graduated scale upon inheritances that is reasonable, is fair. It is a question of inheritance, and the person who gets the inheritance is getting the title to the property transferred to him without any effort.

If you take next of kin in blood, I might agree with you. I want to say frankly that I have been of that mind for some time, that there should be a difference in the rate as to next of kin, collateral, and strangers in blood.

MR. JACKSON. Yes, sir.

MR. VINSON. But you take a stranger in blood and get property——

MR. JACKSON. That is a windfall.

MR. VINSON. That is a real windfall. Consequently, I cannot follow you on having a flat tax for him, and it seems to me that the graduation should be larger.

MR. JACKSON. Very likely.

MR. VINSON. If you have the graduated principle, it should be larger for the stranger in blood than for the collateral.

MR. JACKSON. I think that is true, but there is only one thing about the amount of these exemptions, and I think the committee would like to get this, and I hope I am not talking foolishly. My only answer to that, sir, is this: Of course, \$100,000 and \$200,000 and \$300,000 look like very large sums of money.

MR. VINSON. Of course, you understand I am just mentioning those as illustrations.

MR. JACKSON. Yes, sir. Mr. Knutson, of the committee, is a publisher, and he can bear me out on these facts: When I went into the newspaper business, just after leaving here 38 years ago, or 35 years ago, the press on which we published our paper was a press which

represented about \$10,000 or \$12,000. The press I have got today, on which it is necessary to publish my paper, represents over \$200,000, and that is only the press alone.

Now, as Mr. Knutson pointed out, you have got an enormous amount of other equipment. The newspaper requires a lot of things and is a very expensive business. In other words, what may seem like a relatively large amount of money is not money but is a business.

What I am arguing for is that the direct heirs should not be driven out of the business; that the direct heirs should have the right to get that business, and I resist any form of taxation that would drive them out of the business or compel them to sell their business, or put them in a position where they could not carry on the business, for instance; in other words, could not enjoy an inheritance that their parent naturally built up for them.

Mr. VINSON. You agree that strangers in blood should have the higher rate?

Mr. JACKSON. Absolutely.

Mr. VINSON. And if a graduated principle were invoked, the grades should be stiffer?

Mr. JACKSON. Yes, sir; but I point out again this situation: Suppose a few years ago a man knew that such a law as this was going into effect, this is what would happen: He would say, "I built up my business to a point where I can support my family. There is no use building it up any further, unless I can get some other assets in my estate, ready to take care of these estate taxes and inheritance taxes. Otherwise, I am jeopardizing my property. In other words, if I go in and build up my property, create more employment, make more profits, and turn over more Federal income taxes to the Government, by that process I am jeopardizing the possibility of my family ever inheriting that property."

Mr. VINSON. The soundness of that argument is based upon an oppressive tax being imposed.

Mr. JACKSON. I consider, in view of this element of nonliquidity which is concerned, that an estate being settled even within 2 years, in which the major assets of the estate are distinctly nonliquid, as in the case of real estate, a going business, manufacturing or otherwise, a proprietary business, a business resting on a patent, that then it is simply impossible to liquidate that without reducing the net estate or jeopardizing the passing of the property down to the heirs.

Mr. VINSON. It still comes to the point as to whether or not it is oppressive and unreasonable. That is the thing which you are fearful of?

Mr. JACKSON. Yes.

Mr. VINSON. Of too burdensome a tax?

Mr. JACKSON. Yes.

Mr. VINSON. Under such a tax an estate such as you mentioned would suffer?

Mr. JACKSON. Of course, you must bear in mind that these sudden financial cataclysms, without any protection of law, would tend to make something burdensome which might not appear to be burdensome under the flat basis, under the law as it stood. In other words, when things slumped badly after the boom, the securities of all the best companies that were solvent went down in the security markets and were kept down in the security markets for a period of a year or a year

and a half, and anywhere along from one-half to two-fifths, or, in some cases, even one-third of their value, was lost, their value at the time of the decedent's death.

The CHAIRMAN. We thank you for your appearance and the testimony which you have given the committee.

Mr. JACKSON. I want to thank the committee very much for the courtesy they have extended to me.

Mr. REED. Mr. Chairman, may I have inserted in the record a paragraph on page 152 of the Federal and State Death Taxes, Reports of the Joint Committee on Internal Revenue Taxation?

The CHAIRMAN. Without objection, it may be placed in the record. (The statement referred to above is as follows:)

F. SHOULD THE FEDERAL GOVERNMENT SUBSTITUTE AN INHERITANCE TAX FOR THE ESTATE TAX?

Elsewhere in this report the relative merits of the estate tax and the inheritance tax are discussed. It is there concluded that while the estate tax is the simpler and the easier to administer of the two forms of death duties, the inheritance tax is the more equitable.

In 1916, when the present Federal death duty was first imposed, Congress adopted the estate tax rather than the inheritance tax because it was considered that such a levy could be "readily administered with less conflict than a tax based upon shares" (H. Rept. No. 922, 64th Cong., 1st sess.). At the same time, it was felt that an inheritance tax, even though imposed at high rates, would prove disappointing in revenue yield on account of the fact that it would attach only after the distribution of the estate into many smaller shares. At the time of the imposition of the tax, it will be recalled, the Government was seeking new sources of revenue. Thus, as between these two reasons for adopting the estate tax over the inheritance tax, the fact that it would produce more revenue may have been the more controlling.

In explaining the revenue bill of 1916 to the House of Representatives, the then chairman of the Ways and Means Committee (Mr. Kitchin) made the following statement:

"We levy the tax on the transfer of the flat or whole estate. We do not follow the beneficiaries and see how much this one gets and that one gets, and what rate should be levied on lineal and what on collateral relations, but we simply levy on the net estate. This also prevents the Federal Government, through the Treasury Department, going into the courts contesting and construing wills and statutes of distribution."

During the consideration of the revenue bill of 1918, the Senate amended the measure by substituting an inheritance tax for the estate tax carried in the House provisions. The House, however, refused to accept the amendment, presumably for the same reasons that it proposed an estate tax in place of an inheritance tax in the first instance. The Senate proposal was to base the tax on the individual shares of the beneficiaries, but no recognition was to be given to consanguinity, direct heirs being subject to the same rates as collaterals and strangers. In 1924, the Senate again attempted to substitute a similar share tax, but the House once more refused to yield.

Aside from the revenue argument in favor of the estate tax, from a practical standpoint it appears that a Federal inheritance tax would bring about many difficulties of administration which the proponents of such a tax, having regard only for its so-called "equities", are given to overlook. The transmission and receipt of property on the death of the owner thereof takes place by virtue of the laws of the several States. The probate of wills, and the administration of the estates of decedents dying intestate, is exclusively a matter within their jurisdiction. As long as the Federal Government levies a tax on the net estate of a decedent as a unit it does not become involved in matters of probate and administration. With such a tax, it need not be concerned with the rights of the heirs or beneficiaries, or generally with the valuation of life estates and contingent interests. However, with the Federal Government levying a share tax it would necessarily become directly interested in such matters. Before the tax could be fixed, the shares of the beneficiaries would have to be determined in the State courts. In case of dissatisfaction on the part of the Federal Government with the settlement arrived at, it might want to appeal some questions to a Federal court, such as

the valuation of the property. There might result an interference with the jurisdiction of the State courts, a great amount of confusion, and considerable extra expense in arriving at a settlement.

It is quite clear that the inheritance, or share, tax has a number of so-called "equities" existing in its favor. For example, it imposes a lower tax on direct heirs than on collateral heirs and strangers in blood. This is eminently fair, and is supported by the custom of many centuries. It taxes a given share, say \$1,000, in a large estate no more than the same share in a small estate. The inheritance tax is payable by each beneficiary, but the estate tax is generally payable out of the residuary estate, and is thus often saddled on a single beneficiary, perhaps one of the immediate family of the decedent or even a charitable organization. This is a matter, however, that can be provided for by the testator in his will, either by setting up a separate fund for the payment of the tax or by requiring it to be ratably apportioned against each beneficiary.

The fact is often lost sight of that under our present system of death taxes, with most of the States imposing share taxes as their basic levy and with the Federal Government imposing a tax on the estate as a unit, recognition is still given to consanguinity and distribution. It is true that the Federal tax gives no such recognition, but when it is added to the State inheritance levy, the direct heirs will be found in many cases to be bearing a lighter burden than collaterals, and collaterals a lighter burden than strangers in blood. Let it be assumed, for example, that a \$150,000 estate is divided by the decedent into three shares, one-third going to his sons, one-third to a collateral relative, and one-third to a stranger in blood: The State inheritance tax on the son's share will probably be in the neighborhood of \$500 on the average; that on the collateral relative's share about \$1,500; and that on the share of the stranger in blood about \$3,000. The present Federal tax on an estate of \$150,000, after deducting the exemption and allowing the credit for the State death taxes, would be \$4,600. If this tax were apportioned against each of the three shares, it would amount to \$1,533.33 in each case. Thus, the total death tax burden on the son, the collateral heir, and the stranger, respectively, would be as follows:

Son:

State inheritance tax.....	\$500. 00
Share of Federal tax.....	1, 533. 33
Total.....	<u>2, 033. 33</u>

Collateral heir:

State inheritance tax.....	1, 500. 00
Share of Federal tax.....	1, 533. 33
Total.....	<u>3, 033. 33</u>

Stranger in blood:

State inheritance tax.....	3, 000. 00
Share of Federal tax.....	1, 533. 33
Total.....	<u>4, 533. 33</u>

It is therefore apparent that when the Federal and State death taxes are considered as a unit, which for all practical purposes they are, the burden is usually lighter on direct heirs than on collaterals and strangers, in most of the States. This relief in favor of consanguinity is more marked in the case of the smaller estates than in the larger ones, and in the case of estates located in States having an inheritance tax with no additional estate tax.

Under the estate tax, discrimination in rates in favor of direct heirs is, of course, impossible. It has been pointed out in the preceding paragraphs that this fact still permits of a discrimination when the total Federal and State tax is taken into consideration. But, it may be asked whether this discrimination is as important as is generally supposed. It is possible, of course, to make some discrimination in favor of direct heirs by exemptions.

The principal reason, perhaps, for imposing more favorable rates on direct heirs is that a man should not be penalized for making adequate provision for his dependents. However, as long as the Federal exemption is kept sufficiently high, this principle can be carried out just as effectively as by discriminatory rates. If the exemption is sufficient to leave undisturbed so much of the estate as is necessary for support of the decedent's family, it makes little difference how high the rates are above the exemption. Of course, such an exemption benefits

strangers participating in the estate as well as the direct heirs, but they can be adequately taxed under the State inheritance tax. However, the possibility of making some provision in the estate tax for direct heirs is suggested in another part of this report.

So far as regards the distribution of the tax among the beneficiaries of an estate, the whole matter, as has been pointed out, is within the control of the testator in making his will, whether under an inheritance tax or an estate tax. By properly drawing his will, the testator can, for all practical purposes, convert an inheritance tax into an estate tax if he chooses, leaving each beneficiary the desired amount and providing for the payment of the tax out of the residuary estate. On the other hand, an estate tax can, in effect, be converted into a share tax if the testator requires in his will that the tax be deducted pro rata from the share of each beneficiary. The estate tax can be ascertained at once after valuation of the estate, and if the testator himself has a fairly accurate account of his property he can determine in advance the total burden on his estate and carry out his precise intentions as to the net amount which he desires each beneficiary to receive.

Aside from the practical advantages favoring the imposition of the estate tax by the Federal Government rather than an inheritance tax, there are several important theoretical considerations. If the estate of a decedent may be said to owe an obligation to the Federal Government, it is an obligation that attaches to the estate as a unit and not to the distributive shares. If the estate has escaped its fair share of taxes in the lifetime of the owner, the Federal Government should collect those "back taxes" by levying on the total property left by the decedent, not on the shares received by the separate beneficiaries. If the Government is to collect substantial revenue from the tax, it must be levied before the estate is divided and the taxable shares diminished by exemptions and brought under lower brackets of the progressive rate schedule, unless the schedule of inheritance tax rates are to be substantially greater than the estate tax rates. Moreover, if the death tax is to reach the unearned increment of property, such as the increase in land values, the increase in the value of stocks, etc., which is not reached under the income tax if the property is not sold in the lifetime of the owner, the tax should be applied before the property is distributed.

From a practical standpoint, it would seem that the estate tax is best adapted for use by the Federal Government, and its imposition is not unsupported by theory. Its simplicity, its ease of administration, and its larger revenue yield are factors which strongly influenced its adoption in the first place and which still favor its retention. It is true that the inheritance tax appears somewhat more equitable, but the possibilities of incorporating into the estate tax some of the equitable features of the inheritance tax should not be overlooked.

STATEMENT OF SIMON B. FOX, INDIANAPOLIS, IND.

Mr. Fox. An unlimited power to tax involves necessarily the power to destroy, because there is a limit beyond which no industry or individual can bear taxation.

Now, as to our sources of revenue in 1933:

No one would give up the benefits which taxes make possible, which are as follows:

Protection, keeping the unfortunate man from starving, to be without the Army or Navy, education, and good roads.

Look at the following figures and see where the revenue came from in 1933:

Railroads.....	\$250, 000, 000
Electric and gas utilities.....	325, 000, 000
Telephone companies.....	85, 000, 000
Auto industry.....	1, 000, 000, 000

True, our Government today needs money. Taxes, they say, must be increased. My theory—and which I believe is correct, although it may not be—is that the first thing we should do is to close up every loophole of evasion. The loopholes of evasion in this Government—

and I may say that I was with the Government for 6½ years in this very particular department—are innumerable. First, that there is not one-tenth of the interest that is paid out to taxpayers in the United States which are reported by those who pay them; secondly, there is not one-tenth of the dividends that are paid in the United States which are reported, due to the present law, under \$300, that it does not have to be reported on form 1099, and they never make any notation of it on the return. Those are two things which I think would increase our revenue materially.

Mr. HILL. What was the first again?

Mr. Fox. The first is the interest paid by trust companies, banks, holders of notes and mortgages, that is never reported.

The CHAIRMAN. You mean received by holders of notes, and not paid by them?

Mr. Fox. Received by them; exactly.

I say that form 1099 should be compelled to show every cent which every individual has, who pays any interest or dividends whatsoever, irrespective of the amount.

Mr. HILL. Is that in the administration or is it a defect in the law?

Mr. Fox. I think it is a defect in the law. I do not think it is compulsory.

Next I say that every individual in the United States who has a \$1,000 income should make a return, whereas the law now says unless you have a net income of \$1,000 you do not have to file a return. How do they know what constitutes the net amount of that return? Nobody knows. He says, "I have had these exemptions and those exemptions", and it is an evasion, and he gets by.

I say to reduce exemptions would increase taxes in that way. A single man should have \$450 and a married man should have \$1,500 and \$200 for each dependent thereon.

I believe that if that method and theory were followed that way, it will increase the revenue of this Government \$200,000,000 to \$300,000,000.

Evasion is our greatest subterfuge, the greatest that we have got in this country, and that is the reason why we are running in the red.

Mr. HILL. You would not call that a fault of the law, when the law provides for it?

Mr. Fox. Yes; there are a lot of them doing it. Many people in this country with a salary over \$1,000 and children over 18 years of age taken an exemption and say they are dependent because they are at college, and they take the exemption.

Mr. HILL. There is no exemption because they are dependent. They are exempt up to 18 years and not beyond that.

Mr. Fox. They do that because they say they are dependent upon them and they use that credit.

Mr. HILL. I think the gentleman is incorrect. It is a matter of administration and not a matter of law.

Mr. Fox. I beg your pardon; it is administration.

Mr. HILL. I doubt the accuracy of that statement. I know you are sincere in it, but I rather doubt the accuracy of that statement.

Mr. Fox. I know positively if the returns in this country were examined, that there would be hundreds of thousands which would go in there for \$400 more a year, that are not on there, gentlemen, today, because they simply want to evade it, and they get by with it. I do not want to take up any more time.

I have got everything in this brief; and I thank you for your consideration.

Mr. McCORMACK. I assume what you have in mind is that the more people can reasonably and properly be taxed, the more we get?

Mr. FOX. Yes, sir.

Mr. McCORMACK. They become tax-conscious, and then there is a realization of responsibility?

Mr. FOX. Absolutely. There is too much of it in this country.

Mr. HILL. Do you think a man could live on \$450 a year?

Mr. FOX. Do I think a man could live on \$450 a year?

Mr. HILL. Yes, sir.

Mr. FOX. A single man ought to; yes.

Mr. HILL. Of course, he gets no deduction for his living expenses in arriving at the net.

Mr. FOX. Absolutely not, but he drives an automobile, and he has all the other pleasures, and why should he not pay his Government some taxes?

Mr. HILL. He does not get a deduction for driving his automobile unless it is a part of his business expense.

Mr. FOX. Then he gets it, but he has all the exemptions and he has only \$1,000.

Mr. HILL. He would not have a very good time in a pleasure way with only \$450, would he?

Mr. FOX. That is all right, but he is exempt.

The CHAIRMAN. We thank you for your appearance.

(The brief referred to above of Mr. Fox is as follows:)

THOUGHTS ON TAXATION

An unlimited power to tax involves necessarily a power to destroy, because there is a limit beyond which no industry or individual can bear taxation.

Revenue we must have, due to the increase of Government expenses, which have mounted to billions of dollars in the past 18 months. Therefore, the question of taxation is one of the most vital questions to come before Congress, so let us try and analyze this question so as not to burden any taxpayer and yet obtain more revenue.

Sources of revenue.—No one would give up the benefits which taxes make possible, which are as follows:

Protection, keeping the unfortunate from starving, to be without the Army or Navy, education, and good roads.

Look at the following figures and see where the revenue came from in 1933:

Railroads.....	\$250, 000, 000
Electric and gas utilities.....	325, 000, 000
Telegraph companies.....	85, 000, 000
Auto industry.....	1, 000, 000, 000

In addition, other large industries and large businesses contribute heavily to the support of our Government.

The taxes of \$8,000,000,000 must come either direct, or indirect from the profits of 150 of the largest corporations in the United States, which have millions of stockholders and, of course, it is the millions upon millions of stockholders that business depends upon who must pay the normal tax bill.

If the incomes of the 7,500 persons whose incomes are over \$50,000 were confiscated, the sum total would still be but a fraction of the tax money needed. So, if we are to enjoy the benefits that taxes make possible the source of national income will be guarded and permitted to expand for the United States must live on the profits of the businesses.

In order to accomplish this we first should study well the elimination of all duplication of the departments of our Government from an economic standpoint, by the elimination of the advisory committee, and the Board of Tax Appeals, which are nothing more than a duplication of the work done in the revenue

agent's office, and in which there is an advisory committee. If agreements cannot be made and settlements agreed to, they can then appeal to the Court of Claims, which follows if adjustments cannot be made by the revenue agent's committee.

The elimination of these two boards would save the Government several millions of dollars yearly and save the taxpayers thousands of dollars yearly and save the taxpayers thousands of dollars of expense, which should be eliminated.

Additional revenue.—In order to secure additional revenue, deductions should be limited in the form of credits in the following manner:

A single person without any dependents, a credit of \$450 if he is the only support of his family, the same as the head of a family, but be allowed no additional credit for dependents.

If married and living as husband and wife, a credit of \$1,500 and \$200 for each dependent under 16 years of age, or incapable of self-support living under the same roof, but in no case should credit be allowed for dependents unless it could be proven that they have absolutely no other support, and then only to the extent of \$200 each.

That all employers report on form 1099 every person employed showing salary paid, whether married or single and the name of parents if living at home. This would give a double check on the amount reported by the taxpayer if he had children living at home for which he took credit and whose incomes were added to his, as the regulation now provides, but which is not done, nor is this item verified.

That every person, whether married or single, who has an income of \$1,000, must file a report so the credits taken thereon will show whether or not they are allowable and if the taxpayer is subject to a tax.

Evasion.—Evasion means "subterfuge" and this is one of the greatest evils of all taxing conditions today, not only with our Government, but with the local government as well. In order to close up these loopholes I would suggest the following:

First: By passing a law compelling all stockbrokers to fill out a form showing every stock transaction, the date thereof, number of shares, the price when bought and when sold, to whom sold and the gain, or loss, on same. This is done in many cases, but only the number of shares bought, or sold, are listed, and nothing else is reported with the exception of cost and interest, if any.

There are thousands of stock transactions never reported by the individual, which, if properly reported and checked, as form 1099 is checked, would bring millions of dollars in additional revenue.

For a moment let me discuss one of the two most important questions which has caused more trouble than any other questions of taxation.

First. Capital gains or losses should be eliminated entirely from taxation, as statistics show losses are far greater than gains, decreasing the revenue of the Government in place of increasing it. Under the present law very few taxpayers will sell their stocks or bonds and take their profit due to the present rate of taxation; therefore, this money is tied up, whereas if gains or losses were eliminated entirely there would be far more stock transactions and more money in circulation, causing more business from which taxes would be collected. My thoughts along these lines are to follow the English system on gains or losses.

Let me go farther, that every bank, trust company, building and loan association be compelled to fill out form 1099 and report all interest items paid and to whom paid. If this were done it would mean millions of dollars of additional revenue from incomes which is not reported now by the taxpayer.

That a questionnaire should be on the bottom of every income-tax return asking the following questions, under oath:

What is the amount of interest received from bonds or notes?

What is the amount of interest received from mortgages?

What is the amount of interest received from building and loan associations?

What is the amount of dividends received from corporations in cash or in stock?

There can be no question but what there are millions of dollars of taxes in these particular items, which, if reported would bring the taxpayer in a surtax bracket, which today are not reported at all, and of course on which no tax is paid, as no dividends need be reported under the present regulations by corporations or trusts if less than \$300, or interest of less than \$1,000, so there is no check on the lesser amounts to make it compulsory to report all interest paid and to whom paid. Of the 9,500,000 stockholders of the largest corporations in the United States who receive dividends, only 40 percent are reported to the Government under the present system.

Second. My second question to discuss is as follows:

Laws should be enacted at once compelling every receiver to file a yearly report, showing actual conditions of every corporation, partnership, or individual business conditions with a balance sheet and report to all stockholders, also to the Commissioner of Internal Revenue at Washington, D. C., who in turn would immediately advise every revenue agent's office as to the value of all stocks in receivership so the revenue agents may advise all of the deputies as to the losses and the year in which the loss will be allowed, so that all taxpayers will be given losses in the same year and not in various years as happens in many cases now under the present law.

Not only does the taxpayer have the loss of his stocks or bonds but also the additional loss in not having taken his loss on his return at the proper time by not being informed as to the conditions of the assets and liabilities of the corporation, and is therefore deprived of his rights by the statute of limitations which in many cases has expired.

The Department in Washington makes a ruling that a loss is to be taken in a certain year and will not allow it in any other in spite of the fact that the taxpayer is not properly informed as to the year, or the value of his stock at the time of filing his return, for example:

A taxpayer's return is examined by a revenue agent who finds that a loss had been taken in a certain year and in his finding disallows the same in that year—stating it was in the previous year—to which the taxpayer files a protest and claim for refund sending the case to Washington, D. C., for a hearing. After a conference in Washington, the Department rules the loss was not in the previous year, but would not be allowed in a later year. Later the taxpayer received a letter from the Commissioner of Internal Revenue in Washington disallowing the claim for the previous year. Then the taxpayer filed an amended return and claim for refund for the later year which was held up in Washington with the word that they have not determined what year the loss should be taken. The taxpayer had another conference in Washington and still the year was not determined. Later the taxpayer received a letter stating that the claim had been allowed in the previous year—after it had been disallowed.

This certainly should be rectified, for it seems that the Department makes its own rules, disregarding a taxpayer's rights and the law entirely and the only thing left for the taxpayer is to file suit at an additional cost, in order that he may receive that which is justly due him and which should have been settled at the first conference in Washington when all the evidence and the facts were submitted.

In conclusion let me state that the only object of this quotation is to prove to the Ways and Means Committee the necessity of such a law, so that all taxpayers will have the same rights as to the year in which losses should be allowed which would be governed by a receiver's report to the Commissioner of Internal Revenue at Washington, D. C., who after examining the same would give the year in which the loss should be sustained.

LOSS OF INCOME TO THE GOVERNMENT FROM 1929 TO 1932

Revenue from taxation has been decreased from \$4,034,000,000 in 1929 to \$2,118,000,000 in 1932, or a decline of 47 percent, not altogether due to unemployment, or a reduction in wages, but due to the credits which have been allowed against earned income, and the change in the credits of single and married men, which has eliminated about 6,000,000 wage earners from paying any income tax whatsoever, and penalizing industry and the other 6,000,000 taxpayers to a point where the burden is almost a confiscation of wealth.

It is, therefore, imperative that Congress pass an income tax law equalizing taxation so that every wage earner pay his share of the tax.

Income taxes collected at the source on all small incomes is the surest method of collecting a tax, and without a hardship on the taxpayer at the time of payment, for it is easier to make the small payment than to make a larger one quarterly.

This again will prove that if the credits be changed as I have suggested in my previous article that, as the period from 1929 to 1932 showed a decrease of 47 percent, by increasing the credits the changing of the same at this time will more than increase the income 55 percent.

Again this is a thought of how to increase revenue and not penalize industry or wealth which seems to be the thoughts at this time as the only way to increase revenue, and to my mind is wrong, for when you penalize wealth you stop the wheels of industry and decrease your income.

TAX-EXEMPT SECURITIES

Legislation to remove tax exemptions on all Federal, State, and municipal bonds or securities of any kind will be urged of Congress when it convenes in January of 1935.

While an enactment of an amendment to the Constitution will be recommended to permit States and counties to tax the interest on all future Federal securities, and the Government to tax all interest from all future State and municipal bonds and other securities issued, let us go further by recommending the enactment of an amendment to the Constitution to permit the Federal Government to tax all income of every State, county, city, or municipal employees, the same as all Federal employees. There is no reason why State, county, or city employees should have their income exempt from taxation, and if this amendment is made there will be hundreds of millions of income tax collected from the millions of employees on the various State, county, city, and municipal pay rolls.

S. B. Fox,

The CHAIRMAN. The last witness this morning is Ernest Wells Williams, economist, Washington, D. C.

STATEMENT OF ERNEST WELLS WILLIAMS, WASHINGTON, D. C.

Mr. WILLIAMS. My address is 1228 I Street, Washington, D. C.

Mr. COOPER. In what capacity do you appear here?

Mr. WILLIAMS. I have been called an economist, strange to say, in foreign countries. In the United States I do not happen to be so known. I have made several discoveries, in fact, possibly the only basic economic discovery for a great many hundred years, in the course of the last 2 years. It has not been published because it was not desirable, but it is now.

I happened to draw a picture which later proved to be a picture of a basic social unit, a basic economic unit. The picture showed a few things very plainly, which never had been appreciated before. It was a picture of a very small group of people, and there were only about one-half dozen, and in that group, when I worked around with it for a while, I found this: That it was perfectly possible in that small group, for one individual to attain the complete ownership of all the property. That was something that I had never considered very carefully, but then it was very apparent that right here in the United States it was perfectly possible, legally possible, for one individual to attain the legal ownership of all the real and personal property in the United States—a ridiculous thing, and yet, under those circumstances, the status of the Congress, and the Supreme Court, and the Executive, was somewhat startling.

It was also very plain that the present condition of centralized ownership approached that condition much more closely than the general ownership, upon which the general legal structure is based.

That was very interesting to me, and then I found something else. We have always believed that the ownership of property entitled us to an income. That, I found, was not quite the case.

I drew a picture of a group of people that owned their own homes, without any mortgages on them, and I drew a picture of the business men who owned their own businesses, and there was no reward to ownership of that property. The ownership of it did not bring them a cent.

That was rather strange. Then I centralized the ownership of that property, and immediately there arose that condition of a return to ownership which had not been present before.

I found this: That as the return to ownership increased, that trade decreased, that prices increased. The reason that trade decreased was this: That people's possessions were taken from them, and when they did not have those possessions, they could not trade them with the people with whom they normally would trade them.

And the business which exchanged that production had costs raised, and they could not trade through that business machine. So trade stopped; and when trade stopped, unemployment came; and when unemployment came, then the Government had to take care of the people who were unemployed. And all this time the Government was not only taking care of those people but if they were being taken care of they were paying what money they had in as their return to capital.

It was a very strange situation. So I made a tax base, and it was a very strange tax base. I divided property ownership, and I divided it on the basis of use, and I found a very strange thing: That it was not the property that a person owned that decided whether he was going to have income, but it was whether he used it or not. If it was his home, he did not get income from it. If he had two houses, he obtained income from one of them. In other words, it automatically eliminated the individual of reasonable circumstances from the attainment of this reward to ownership. It was strictly a rich man's property, which the poor man paid. That was strange, but that line of use was a very important line, because there was a mutuality in this ownership. In other words, ownership was based on a little thing of mutual protection, and I had an interest in the man, in his home, but that interest disappeared when it was only an extra house. I would not protect it, if that extra house made the tax possible. About the biggest tax source which has been created——

The CHAIRMAN. Are you about through? Your 10 minutes are up.

Mr. WILLIAMS. I should like a little more time.

I found that the tax source of surplus over use was a great tax source, upon which a terrific tax could be justly placed because of this fact: That people have no interest in that excess over use, as far as protecting it is concerned.

They will naturally and very kindly protect the things which people use, they will protect their homes, they will protect their furniture, and they will protect the most unreasonable things that a man uses, but the extra farm, the extra house, the stocks, the bonds, and those things which are surplus to the individual's use are in one class. These are a class of ownership which heretofore has drawn the income and they constitute the logical tax source.

The CHAIRMAN. We thank you for your appearance and the testimony which you have given to the committee.

(Mr. Williams subsequently submitted the following extension of his remarks:)

WASHINGTON, D. C., *July 10, 1935.*

The CHAIRMAN COMMITTEE ON WAYS AND MEANS,

House of Representatives.

SIR: In extension of my remarks before the committee today, in which I mentioned the development of a very important new economic element, I offer at this time such explanation of it as will fit the needs of the committee.

Many of the statements made have been very plain in their denunciation of the efforts of the administration to solve the present economic difficulties; and definite and usable contributions to aid the committee have been almost entirely lacking.

I have taken note of the fact that the Executive has neither limited the committee nor offered guidance as to the kind or type of tax law desired. A strictly informative message asked the committee to accomplish purposes heretofore

believed impossible in taxation—make available to the urgent need of government a very large additional sum of money, at the same time benefit business, and further than that, have great and necessary, and immediate social benefit—and that last, at this time, must involve an immediate increase in employment, and at the same time, increase of wages. This combination of results through a tax bill would seem to offer to the committee insurmountable difficulties.

Conditions have made this action necessary; and the uncovering of the new economic element which I mentioned before the committee has made it possible.

The folder which I have made available to the committee graphically illustrates this statement I make here. The first illustration on page 7 shows an economic structure brought to a complete impasse, with government, business, and the general population deep in debt to a centralized ownership, and naturally paying—forced to pay—a huge interest, dividend, and rental sum daily to this ownership. The effect of this I shall later detail in this statement. However, this condition did not always exist, it is a comparatively new condition. Like Topsey, it “just grew.”

It did not exist when the now United States was first colonized; and I illustrate on page 2 of the folder the economic advancement to a comparatively modern period; and still this condition did not come into existence.

The first illustration, when people were almost self-supporting on their own farms, making their own clothes, even their own shoes, and similar activities which seem almost impossible today. There was neither necessity nor opportunity for extended trade because largely they produced the same articles and commodities. They grew their own tobacco, they built their own homes.

Naturally, they started to trade, and they later accumulated a general store, and trade increased. Figure 3 shows that, and figure 4 shows a trade passing through that general store. It may be noted that the general store largely performed the banking function—without interest.

Figure 5 shows that general store subdivided into various functions, and still serving the community. In this figure 4, I point out that if the storekeeper had attained considerable wealth, and everyone around him had become poor, the community itself would have demanded and forced a reorganization of the condition.

Page 6, the second illustration, shows the seeds of a new condition—and is approximately the economic condition at the time the Constitution was written. It bears no similarity, however, to the present situation. The community had become more prosperous, and naturally there was some inequality of prosperity. There are two new lines in this illustration—where individuals have attained some little prosperity, and a surplus over their immediate personal needs. Perhaps it is a building which has been rented, or a mortgage negotiated; having a surplus which they themselves did not need, the reasonable, accepted, and natural action for them then was to obtain an income from that surplus.

The new element had appeared, in embryo form; and it was a short step from that point to the first picture on page 7; the pictured condition of today. The actual difference is as great as the pictured difference, and involves a change which is fundamental. In the first picture, people were able to become prosperous, support their families, by their work, their employment, and without government aid.

In the second picture, the reward of their production, and their enterprise is taken away from them by this centralized ownership, so that they have nothing to trade; and their natural buyer is in the same condition—which means that their market for their surplus has been destroyed. “Specialization of production”, the natural condition in a group of modern people involves primarily the production of a great surplus of the goods specialized in; and this market destruction automatically ends that specialized production. The increased costs in the business machine, due to “capital charges”, creates an additional barrier to trade, and trade lessens and may practically cease. It is at that point that business suddenly finds it cannot collect its accounts, and that customers have suddenly disappeared.

The illustrations on page 1 need no explanation; I obtained the same result here as elsewhere; but I broke down the equity of the entire situation in the fourth illustration. I quote from a statement which I made before the Committee on Finance of the Senate on February 15, 1935. I cannot exaggerate the importance of the uncovering of this inequity, because it affects the equity of a great mass of common law which has been accepted since the Roman Conquest of England, and even long before that time; affects it not slightly, but a great deal.

How well this inequity is hidden, gentlemen, at least must be apparent. Even imagining a war, in which this little group of people leave their homes—their rented or mortgaged homes—does not disclose any inequity. While these people are away from their homes, the accepted justice of the contract remains in full

force and effect between all the parties; and therefore, when they return from that necessarily small war, they are in arrears in their interest, and their rent.

They did not start the war, and neither did any one of the group, nor the Government. It "just started itself"—as wars have a senseless habit of doing. Certainly it was no fault of the owner of the property, or the holder of the mortgage, and why should he bear any damage, in full or in part, because of this enforced absence. The answer, the only answer, is that the back rent, the back interest, must be paid immediately, as called for in the bond. In this demand, and in its enforcement, the Government would naturally concur. Property rights and the sanctity of the contract, leave no other course open.

Yet let us have another war, in which the little group is defeated, their government destroyed, all the property destroyed, and measure the losses. Surprisingly, then, it is apparent that the only possible loser is the owner of the property—the holder of the mortgage, and the owner of the houses. There was the basic error, and this is the inequity, that suddenly it is apparent that this protective service which has been so freely given by the Government, using its people for its defense, has been a very valuable and terribly costly service and protection, and further, that neither government nor people have been recompensed in any manner for the vast service rendered to this particular type of property ownership. This further inequity, also, that instead of paying for this service in its protection, ownership of this type has taken full advantage of its every opportunity to impoverish the governments and people who have protected it; and the right to this service, and the right to so impoverish these necessary protectors, has been held to be a definite property right.

Mr. Chairman, no form of ownership has or should have that right. The ownership of the home, the farm which is a man's source of livelihood, the necessities and even luxuries which people use, have not that right; and it is not a property right, and must not longer be considered a property right. It is not now, and never has been a property right. It has been a property ownership opportunity, and that opportunity must be removed, definitely and immediately, by this Congress. * * *

To determine exactly what was in this ownership square on page 1, figure 4, I separated this ownership square, with its owner, from the rest of the group—I show that on page 6—with the idea of bringing in as much of his property as was possible and equitable, without starting the condition which always ended so disastrously.

Bringing this property in piecemeal, after listing the property which a comparatively fortunate individual might have, I immediately brought in all the property in groups 1 and 2 shown on page 6.

The "business property" it was apparent could not equitably come in except it be under the complete and absolute control of the group "industrial control." Otherwise it could and most certainly would disrupt the activities of the group of people.

The fourth group did not enter. The instant they would enter, the evil condition came into being immediately. Vacant land also is a member of group 4, although not listed.

"Money", as no. 5, changed so easily to group no. 4 that it apparently was necessary to consider it a member of that group.

At this point another condition may be seen as important. The temptation of Government, or of the people comprising this group, to "borrow" instead of "save and have", and tax, is seen as overwhelming. But in the case of Government there immediately followed such borrowing a "financial control", and in the case of the members of the group, they disappeared immediately as "markets" for the production of the other members of the group, and what should have been "buying money" or "buying power" disappeared, and went into this "loaning money" quarter. In view of the protection which was so essential, and which the group alone was in position to give, there was no need whatever for either of these evil conditions to be allowed to arise.

Another condition which I checked at that time—would the relation of the group to one of their own members, accumulating within the group this "surplus over use" be different than to a stranger bringing his possessions from outside. It was apparent that there was no difference due to source—the relation did not change.

In view of the service of the Government and the group to this "surplus over use" which was outside the "circle of mutuality" which applied to the homes and things of use by the members of the group, it was apparent that as a tax source it was a "service rendered" condition, ideal as a tax source; and that the gratuitous service heretofore rendered was a needless and a fundamental error; and

using as a base the accepted "interest rate" as a guide to the value of that service of protection, I tentatively affixed a 5 percent per year protection rate to this "surplus over use", and viewed the present condition from that angle.

As a practical matter, there could be no question as to its effectiveness and justice; but I was able to fit this "surplus over use" into the present condition in a much more practicable manner, yet eliminating the disastrous existing condition. If this "surplus over use" were in the use of one of the members of the group, there need not be this 5 percent tax—there could be complete exemption from it. Thereupon, I discovered an individual receiving such a loan, however, would be receiving a definite benefit not shared by the group nor the governmental function—and I placed a 2 percent tax on the "face of the mortgage"—the value of the "rented house" and it is apparent that I had created a strange but equitable situation which very practically, completely, and permanently untied the present complete and disastrous economic tie-up which is fairly shown in the first picture as today's condition (p. 7) and changed it to the functioning second picture, with the following outstanding and startling advantages.

I. TAXATION

It will immediately be plain that when this Nation was organized, and before the Constitution was written, practically the only type of ownership was the ownership of the farm, the home, and the rather meager furnishings. This type of ownership did not return an income to the owner. For example, to obtain an advantage from the ownership of the farm, the owner must cultivate it; and yet the ownership of that farm was a valuable thing.

Then this new type of ownership—the ownership of surplus over use—grew up, starting from nothing, and has been considered to warrant an income. With the centralization of ownership, and the throwing into debt of government and people, gradually, beginning from nothing, there has grown this vast return to the ownership of this "surplus over use."

There are no figures, to my knowledge, which would indicate the extent of this return. Yet it is impossible that the average cost per person, in the United States, per day, should be less than 25 cents. I believe it is at least 50 cents; but at the 25-cent figure the daily return to such ownership at this time is approximately \$30,000,000 per day.

The return to government of a third of this figure is \$10,000,000 per day—the astounding figure of \$3,600,000,000 per year.

Regardless of this terrific amount being apportioned, possibly, between the Federal Government and the States, the return is more than sufficient to meet the present emergency, and the return of these astounding astronomical figures is increased instead of decreased by several conditions which are not mentioned at this time. Certainly no other taxation would be necessary by Federal, State, county, or municipal government..

II. ADDITIONAL PURCHASING POWER

The cessation of this unjust and terrific burden upon the American people would mean an addition of twice that sum to their daily income—\$20,000,000 per day, over \$7,000,000,000 per year. With the present centralization of ownership, a comparatively small proportion of this vast amount results in increased purchasing—mainly increasing the "money to loan" accumulation—which is flooding the banks at this time.

The American people "want things." Families are living in one small room in millions of instances, and they want homes.

As soon as they are able to buy homes, millions of unemployed will be busy building homes, and through their employment will become inevitable the purchasers of millions of things which they want now, but cannot possibly purchase.

The number of people willing, able, and financially responsible to purchase homes at this time is pitifully small. Moreover, should they so purchase, they are faced with the necessity of paying for it approximately three times at least, counting the interest charges; the taxation burden confronts them; and they are at the mercy of money lenders. Also many millions have had the painful experience of having their homes nearly paid for, and then losing them. There are few reasons there for home building, regardless of the national need for homes.

3. LESSENERED TAXATION NEEDS

A large proportion of this present "emergency expense" of government is necessitated by the need to care for unemployed. When employed, their need for being cared for disappears; and this expense is ended.

4. SOCIAL BENEFITS

When a man's income will not support him and his family, if possible, his wife seeks employment. The idea of "emancipation of women" being the cause for the employment of women in industry is ridiculous.

The gradual increase of the spread between a man's return from his economic contribution to wealth, and the performing of essential service—this has been the primary cause for "women in industry." The "woman in the home" has in past years become almost extinct; and along with this situation has come delayed marriage, enforced limitation of families, and a host of vital and destructive economic and social conditions which the present generation's grandfathers and great grandfathers could not even imagine.

Even a listing of the damage which has resulted from this fundamental economic error would require a library larger than the famed "Five-foot shelf." Certainly the result would not be a "brief."

5. THE "JUSTICE" OF THIS CHANGE

The ownership of the farm is the basic ownership, and must include all the benefits given any type of ownership, not only in justice to the farmer, but any other action is economically suicidal.

The ownership of his farm by the farmer does not include the possibility of an income, of any reward whatsoever, without productive effort. Only the ownership of an additional farm has heretofore permitted this income without effort.

The ownership of a mortgage on his farm, the ownership of money, in fact the ownership of all forms of property surplus to use, has been accepted as giving this right to income without production, or the obligation to render an essential service; and it is mainly this erroneous belief which has caused the "hills and valleys" of the "trade cycle" and has at last wrecked the existing social system. Its continuance means extinction of all property rights, without any possibility of doubt.

It is easy to say, "Of course we will come out of this depression. We have come out of all the rest." We have been entering this present condition since people in the United States began to accumulate the ownership of property in excess of their own use; and over the entire period we have not come out. At the end of each economic cycle, the return to ownership has been greater, the economic status of the "average man" has become progressively less desirable, even with the additional production made possible by machinery; and Government, State and private debts have continuously mounted, and ownership has become more and more centralized.

6. OWNERSHIP CAN HAVE THESE THINGS, NO MORE

By means of a successful social system, if he is very fortunate, an individual may be able to save the benefits of his production, or his enterprise, or the reward for his service, until he needs those savings, whether the period of elapsed time is a month, a year, 30 years or 50 years—if he is very fortunate, and the social system is a success, he may be able to bestow a part of it upon his children, and his wife. If in his productive years, for example, he is able to save the value of \$10,000 and in 30 or 40 years have that \$10,000 of equal value available to him, he has been very fortunate in his choice of social systems. The idea that in that time there should be an addition, trebling, or quadrupling the \$10,000 perhaps, is patently unreasonable. That belief, and the efforts to make some system function which would so increase the "principal" have dismally failed; and also resulted in complete disuse of available productive effort which could have enriched every inhabitant of the United States beyond his wildest dreams.

Instead of that "wealth which might have been" there is an almost universal desperation and poverty, and a national economic peril which for years in many informed quarters has been believed inescapable. Every step of the present condition, popularly denominated "depression" has been known years in advance of its actual arrival, but the publication of the real views of these able economists would have served no useful purpose.

The uncovering of a new economic element brings new possibilities, not only permitting the escape from such a hopeless and helpless condition, but in this instance permits the Committee on Ways and Means to initiate its acceptance.

The belief that an "income" as a result of property ownership is a constitutional right is hardly justified by the facts. The belief is translated into English common law; but the people who came here and later freed themselves from foreign domination thereby definitely separated themselves from such parts of that English law as were not agreeable to them. Further, at the time the Constitution was written

people in general had none of this special type of property ownership, "surplus over use." There were very few people who might be called "wealthy", and concentration of wealth was not an important element in their political economy; its results were not apparent to them either by knowledge or experience. This particular type of property ownership, then, grew up after the Constitution was written; and how in the name of common sense this type of property now can justly or reasonably claim constitutional rights is difficult to understand. Even Supreme Court decisions, natural and just as they may have seemed, and as heretofore accepted, I respectfully submit, was actually a writing of new American law by the Supreme Court—the assumption by the Court of definite congressional powers.

Moreover, it is apparent that even then the writers of the American Constitution did not place too great trust in "paper writings." Otherwise, why the Congress, and the Supreme Court? Neither did they assume any great rights over coming generations. The good legal principle which forbids the hand of the dead to rise from its grave to govern the living must be accepted by reasonable men, and it must have been accepted by them.

It is apparent that the Constitution had as one of its aims the protection of their property, of their farms and homes, and of their personal rights. The people of that time did their part, and the Constitution did its part, and those rights, were protected for many years. It was only the coming into being of this new type of property, and allowing it constitutional rights, which changed the situation. Almost immediately, the Constitution ceased to protect those people, and their rights, but instead that Constitution seemed to change its allegiance, and come solely to protect the property rights of this new type of property ownership. Today it may be seen that this type of property ownership, so protected, has almost completely denuded the general population of their homes, and farms, and property rights—because a home or a farm, when mortgaged, is the property of the mortgage holder.

This "surplus over use" type of property, to my mind, completely lacks constitutional rights. Like the famed general who obtained the Croix de Guerre, it was not even there, when the Constitution was written. Moreover, the results of permitting it the rights which it has had in the past are painfully apparent today—the proof is absolute and ample that it must not have in the future the rights which have been so tragically misused.

The Constitution has become—has been for many years—the screen behind which all this financial skullduggery—all these financial crimes have been committed. Long ago it ceased to be any real protection to people, and their farms and homes, as it was originally intended. This fact is common knowledge; and it is a terrible thing that has happened, that the Constitution, written for the protection of people, should have come to be used against them, and that such use should have been permitted for several generations of American people, and many, many Congresses.

There is a loud demand by the public press at this time for a return to the Constitution, and its original purposes of the protection of property rights. This is hardly joined by the public generally, because they have come to believe that the Constitution is no friend of theirs—that instead, it is the friend of the landlord, of the banker, of the stockbroker.

It is now possible, with this new element, and this new equity, for this Congress, through the Committee on Ways and Means, to return the Constitution to its original honorable place, to be the protector of the American citizen. It is necessary, and possible by means of the present tax bill now being written by the Committee on Ways and Means; and I cannot believe that this opportunity to do a very honorable thing will be pushed aside. Neither can I believe that the task is too difficult for this present committee, for the present Congress, many of whose Members I know.

May I be pardoned for the length of this statement, which is only warranted by the importance of the subject, and the uncovering of this new knowledge at this time?

I am

Respectfully,

ERNEST WELLS WILLIAMS.

Mr. HILL. Mr. Chairman, I move that the committee recess until tomorrow morning at 10 o'clock.

The CHAIRMAN. The calendar has been completed for the day, and without objection, we will adjourn until tomorrow morning at 10 o'clock.

(Thereupon, at 12 m., the hearing was recessed until tomorrow, Thursday, July 11, 1935, at 10 a. m.)

PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

THURSDAY, JULY 11, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will come to order. The first witness this morning is Chester H. Gray, Washington, D. C., representing the Farm Bureau Federation. Is Mr. Gray present?

(There was no response.)

The next witness is Gen. R. E. Wood, Washington, D. C., representing Sears, Roebuck & Co. Is General Wood present?

(There was no response.)

The next witness is Mr. Vivien C. Anderson, Cincinnati, Ohio. Is Mr. Anderson present?

(There was no response.)

The next witness is Thomas F. Boyle, New York, N. Y. Is Mr. Boyle present?

(There was no response.)

The next witness is C. C. Owlsey, Louisville, Ky., representing the Manufacturers Association of Kentucky. Is Mr. Owsley present?

(There was no response.)

Since no witnesses have appeared to be heard this morning, the committee will go into executive session.

(Thereupon the committee proceeded to the consideration of executive business, after which it adjourned until tomorrow, Friday, July 12, 1935, at 10 a. m.)

PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

FRIDAY, JULY 12, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 10 a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will come to order. The first witness this morning is S. F. Ferguson, who is listed on our schedule as representing the National Association of Clock Manufacturers.

Mr. Ferguson, will you give your full name, your address, and state the capacity in which you appear.

STATEMENT OF SMITH F. FERGUSON, VICE PRESIDENT GENERAL TIME INSTRUMENTS CORPORATION

Mr. FERGUSON. Mr. Chairman, my name is Smith F. Ferguson; I appear not as representing the clock association, although I happen to be president of that association, but I am appearing as vice president of the General Time Instruments Corporation.

The CHAIRMAN. You may proceed with your general statement without interruption, if you prefer, and when you have completed your formal statement then the members of the committee may have some questions they desire to ask you.

Mr. FERGUSON. Mr. Chairman and gentlemen of the committee, I think the proposed graduated corporation tax will tie in with section 351 of the Revenue Act of 1934 in its burden upon companies similar to the one which I represent, and with your permission, I should like to address myself to that suggestion.

Section 351 of the Revenue Act of 1934 imposes a tax upon the undistributed adjusted net income of certain corporations at the rate of 30 percent of the amount thereof not in excess of \$100,000 and 40 percent of the amount thereof in excess of \$100,000. Corporations falling within this section include all that derive at least 80 percent of their gross income from royalties, dividends, interest, and annuities and—excepting regular dealers in stock or securities—gains from the sale of stock and securities, if at least half of the value of the outstanding stock of the corporation is, at any time during the last half of the taxable year, owned directly or indirectly, by or for not more than five individuals. For the purpose of determining ownership of such stock, section 351 provides that stock owned, directly or indirectly, by a corporation, partnership, estate, or trust shall be considered as being owned proportionately by its shareholders, partners, or beneficiaries; and an individual shall be considered as owning

to the exclusion of any other individual, the stock owned, directly or indirectly, by his family, and the family of an individual shall include his brothers and sisters—whether by the whole or half blood—spouse, ancestors, and lineal descendants.

The purpose of the Congress in enacting this section of the Revenue Act of 1934 was doubtless to prevent the evasion of surtaxes by the accumulation of earnings in the treasury of the corporations defined in the act. No opportunity is afforded a corporation to show that it has used and disbursed its earnings for a proper and legitimate business purpose. If the conditions as to ownership of the majority stock and source of income exist, the tax is automatically assessed.

Section 351 is working a grave hardship to those corporations which fall within the definition of personal holding companies but which are in fact organized and operating for strictly business purposes and using earnings to develop and expand legitimate business. A "holding company", so called, may be supervising and directing the operations of manufacturing units which it controls and using and expending its earnings to develop and expand the business of such manufacturing subsidiaries, and yet it is taxed on such earnings by section 351 on the theory that the earnings are being accumulated in its treasury to evade surtaxes on stockholders.

The section subjects a corporation organized in accordance with law and for sound business reasons to a high penalty tax, in addition to the normal corporation income tax, in cases where there is absolutely no basis in substance or in fact for imposing a penalty tax. Corporations which use and disburse their funds for sound business reasons are penalized with a high penalty tax on the theory that such funds are being wrongfully accumulated beyond the needs of the business. Business policies and projects of many corporations of great benefit to the country and their local communities are made impracticable of execution by this extraordinary tax.

Consider the facts as to the General Time Instruments Corporation, of which I am vice president, and which is one of many corporations similarly situated affected by section 351. That company was organized on November 20, 1930, to bring under common ownership the Western Clock Co. of La Salle, Ill., and the Seth Thomas Clock Co. of Thomaston, Conn. The purpose was to create a company which would cover a wider field of time-telling instruments. The Western Clock Co. manufactured alarm clocks and nonjeweled watches, and the Seth Thomas Clock Co. manufactured high-grade mantel clocks and tower clocks.

It was believed that many economies would result from uniting these two companies and combining the management capacity of both and coordinating many of their activities. A committee was appointed of six gentlemen connected with the management of the companies to work out the best plan for their unification. It was finally decided to form a corporation and exchange its stock for the outstanding shares of the two constituent companies. In recommending this plan to the stockholders the committee in a circular letter stated:

The constituent companies are engaged in the manufacture and sale of clocks, watches, and other time instruments, each company confining its activities to special classes and forms as to character and price. The committee believes that it will be for the best interest of all the stockholders, as well as of the trade in

general, if the constituent companies are combined under a unified control, and to that end invite the cooperation of the holders of the preferred stock and debentures of Western Clock Co. and the common-stock holders in each company to effectuate the following plan.

No stock was offered or sold to the public.

The General Time Instruments Corporation now owns all of the capital stock of the Western Clock Co. and owns all of the capital stock of the Seth Thomas Clock Co. There are approximately 158 separate stockholders of the General Time Instruments Corporation. A large number of these stockholders scattered throughout the world, with no financial or business connection, are by statute because of family relationship reduced to five individuals. The corporation owns no stock, bonds, or other securities of any other corporation other than the constituent companies, except that it owns the entire capital stock of Hamilton Sangamo Corporation, now in liquidation.

Mr. VINSON. May I inquire to what part of the President's message you are directing your remarks?

Mr. FERGUSON. I am bringing this point in, that in case a graduated corporation tax should be put in this bill, with section 351, it would make it an added, undue burden, and I would like to get this statement before the committee to show how it would operate, and I really think that the way this has worked out in practice was not within the intention of Congress at the time the bill was enacted.

The CHAIRMAN. You may proceed with your statement.

Mr. FERGUSON. As I said, the corporation owns no stock, bonds, or other securities of any other corporation other than the constituent companies, except that it owns the entire capital stock of Hamilton Sangamo Corporation, now in liquidation. Its income is mostly derived from interest and dividends received from the constituent companies. Its only other income consists of payments made to it by the constituent companies to cover the expenses of the research laboratory and for managerial and other services rendered by the parent corporation. During 1934 income from this latter source amounted to less than 20 percent of the total income from all sources.

The General Time Instruments Corporation was organized without any regard whatsoever to the matter of avoiding taxation. Its organization was dictated by sound business reasons. It is an important business enterprise in an industry that is essential to the existence of every other industry and to our economic stability and national security. In carrying on its business it has become necessary for the General Time Instruments Corporation to use dividends derived from the stock of the Western Clock Co. to finance the Seth Thomas Clock Co. because, while the market for alarm clocks and low-grade clocks and nonjeweled watches is fairly good, the market for the high-grade clocks manufactured by the Seth Thomas Clock Co. has been recently practically nonexistent. It is of direct benefit to the stockholders of the General Time Instruments Corporation that its funds be used to assist the Seth Thomas Clock Co. and its employees during this depression rather than disbursed as dividends. Such a policy is of far more benefit and importance in the long run to the stockholders of the General Time Instruments Corporation than a distribution to them of all its earnings.

The General Time Instruments Corporation has also found it necessary to use earnings derived from dividends on stock of the Western

Clock Co. for plant reconstruction and for reequipment at the Seth Thomas Clock Co. Yet this corporation which uses and proposes to use and disburse its earnings for sound business reasons is subject to a high Federal tax on all its income including such earnings, a tax as high as 40 percent in addition to the normal tax, on the theory that it has accumulated its earnings to evade surtaxes on its stockholders. The earnings of the General Time Instruments Corporation have been used and will be used to expand business, create work, and increase purchasing power.

A taxing statute which requires excessive distributions to stockholders, denuding a corporation of essential financial resources, necessary funds to conduct and develop business, works in direct conflict with all the plans for economic recovery.

Section 351 plainly operates as to many important corporations to retard business developments and prevent reemployment of labor.

In view of these facts and conditions, we are proposing an amendment to section 351 which will in large measure remove the grave hardship it is now working on sound business corporations, and at the same time will leave all the teeth in the section so far as it applies to holding companies organized to evade taxes. We respectfully suggest the following amendment to title IA, section 351, Surtax on Personal Holding Companies, Revenue Act of 1934—and may I say that this is purely a suggested amendment in case anything might be worked out:

Section 351 of the Revenue Act of 1934 is hereby amended by inserting after clause (C) of paragraph (b) (2) a new clause reading as follows:

“(D) Dividends received from any operating subsidiary corporation of such personal holding company if (1) such personal holding company owns more than 85 per centum in value of the outstanding stock of such subsidiary corporation during the entire taxable year, and (2) less than 80 per centum of the gross income of such subsidiary corporation for the taxable year is derived from royalties, dividends, interest, annuities, and gains from the sale of stock or securities.”

If this amendment is adopted, then corporations organized as holding companies, which supervise, direct, and finance manufacturing companies which they control, can use dividends derived from a prosperous subsidiary to aid or expand the business of a weaker unit without subjecting such earnings to this 40-percent tax.

Permit us to point out that we feel quite confident that the above suggested amendment fully protects the Government; that is, it would not defeat the real purpose of the law and provide a loophole for people who wish to form personal holding companies in order to evade taxes.

May we also draw to your attention that this exception to the law as we have drawn it requires two conditions to qualify, namely, the personal holding company must own more than 85 percent of the operating subsidiary and, furthermore, “less than 80 percent of the gross income of such subsidiary operating company must be derived from royalties, dividends, etc.” To our mind these two provisions would make it practically impossible for anybody to devise a scheme to make use of this proposed amendment to evade the intended purpose of the law, which intended purpose we are much in sympathy with.

Furthermore, we also think we have protected the Government in our suggested wording by making it very difficult and doubtless impossible for a subsidiary company to be a sub holding company.

Section 351 as now worded and in force is not just or fair. It so works as to drastically inflict grievous discrimination and injury to honest business men by subjecting them to a high penalty tax on earnings used and expended for legitimate business purposes. This discrimination and hardship will in a large measure be corrected by the suggested amendment we have proposed.

Mr. VINSON. Will you read again the amendment you propose, and tell us where it goes in.

Mr. FERGUSON. This amendment is suggested to title I (A) section 351, surtax on personal holding companies, Revenue Act of 1934:

Section 351 of the Revenue Act of 1934 is hereby amended by inserting after clause (C) of paragraph (b) (2) a new clause reading as follows:

"(D) Dividends received from any operating subsidiary corporation of such personal holding company if (1) such personal holding company owns more than 85 per centum in value of the outstanding stock of such subsidiary corporation during the entire taxable year, and (2) less than 80 per centum of the gross income of such subsidiary corporation for the taxable year is derived from royalties, dividends, interest, annuities, and gains from the sale of stock or securities."

Mr. VINSON. Why do you want the second statement?

Mr. FERGUSON. That was put in, I think, largely to protect—or, it hooks up with the wording of the law itself.

Mr. VINSON. It seems to me it is almost the wording of the law.

Mr. FERGUSON. It makes two factors, Mr. Congressman; you have to own at least 85 percent.

Mr. VINSON. I am talking about the last factor. Section 351 of the Revenue Act of 1934 provides:

at least 80 per centum of its gross income for the taxable year is derived from royalties, dividends, interest, annuities, and (except in the case of regular dealers in stock or securities) gains from the sale of stock and securities.

Why do you want to repeat that?

Mr. FERGUSON. We thought it was necessary, and it also protects the Government, on the question of such a holding company.

Mr. VINSON. It seems to me you substantially strike out the word "dividends" from the definition of a personal holding company.

Mr. FERGUSON. I see.

Mr. VINSON. When you do that you have gone a long way, it seems to me, and I grant you must be optimistic, in the face of the action of the Senate, a few days ago in connection with holding companies.

Mr. FERGUSON. In our case, we own 100 percent of the stock.

Mr. VINSON. I am not talking about your particular case; I am talking about holding companies.

Mr. FERGUSON. I think section 351 was framed with the idea of stopping wealthy people from creating a corporation and paying dividends into that in order to avoid surtaxes. In our particular company, through blood relationship, it comes down under the definition of five people.

Mr. VINSON. It is pretty hard to legislate for one particular set of facts.

Mr. FERGUSON. Exactly. I wanted to bring before you the fact or the idea that I do not think you wanted to make that apply to a going concern, the object of which was not to avoid taxes. The last time, I think when the consolidated returns were taken out at the last moment, this wording was used.

Mr. TREADWAY. Mr. Ferguson, I think the committee was been very much interested in your presentation of the particular item in which you are interested. Are you aware of the nature of this hearing?

Mr. FERGUSON. Yes.

Mr. TREADWAY. The hearing has been brought about by the recommendation of the President that it be held for the purpose of considering three subject matters. The part of your discussion that I heard did not apply to any one of those three.

Mr. FERGUSON. I think, Mr. Treadway, I said in my opening statement—

Mr. TREADWAY. I was not here when you began your statement.

Mr. FERGUSON (continuing). That the reason I brought this before the committee was that you have had suggested a graduated tax on the earnings of corporations.

Mr. TREADWAY. Yes; that is one of the three subject matters.

Mr. FERGUSON. If that were put through and this was not corrected, it would throw an almost impossible burden upon us.

Mr. TREADWAY. You want this amendment to the present law?

Mr. FERGUSON. Yes.

Mr. TREADWAY. We have not any bill before the committee; we are just having a general hearing, and, as I understand it, the subjects are supposed to be the three which the President designated.

Mr. FERGUSON. I quite understand that.

Mr. TREADWAY. I did not know whether you were aware of the fact that there is that limitation.

Mr. FERGUSON. I make this suggestion on the ground that these two provisions combined would throw on us, and I think perhaps on others, a very undue burden. We were caught under this, and I think it was not the intention of Congress to catch a company like ours, but that it was intended to stop the formation of corporations for evading taxes, and that is not the purpose of our company.

We are terribly tied up in our desire to take an old company like the Seth Thomas Clock Co., which has suffered terrifically, and get funds from the Western Clock Co. which we wanted to use for expansion, and we have kept the Seth Thomas Clock Co. going through the depression, out of those funds. If it is mandatory to pay that much to the stockholders, we cannot do it.

Mr. TREADWAY. You spoke about the inconvenience that might result in your line of business.

Mr. FERGUSON. More than that.

Mr. TREADWAY. Possible destruction, you might say?

Mr. FERGUSON. Yes.

Mr. TREADWAY. That would undoubtedly apply, and if the suggestions of the President were put into effect, that would apply to a large number of businesses; would it not?

Mr. FERGUSON. Yes; but I wanted to show what would happen, if it is adopted, combined with this other provision. I do not think it was the intention, when section 351 was passed, to make it hit companies like ours, but in practice it has worked out that way, and I wanted to bring it to the attention of the committee.

Mr. TREADWAY. And a graduated tax would just aggravate that situation.

Mr. FERGUSON. That is my point.

Mr. HILL. You make the point that your personal holding company, by paying out money for the expansion of some operating company, instead of paying out money as dividends to stockholders—that that subjects you to this higher tax?

Mr. FERGUSON. Yes. For instance, if we have earned some money in the Western Clock Co. plant, and we want to use that money to hold up the Seth Thomas Co., if we want to declare a dividend in the parent company, when the parent company gets it, if we do not declare it to the stockholders we cannot use it for anything else, and we are taxed 30 or 40 percent on anything left at the end of the year. We want to use it in order to keep people employed.

Mr. HILL. You would be paying it out for the protection or expansion of the operating company under your holding company?

Mr. FERGUSON. Yes; and then we would be taxed.

Mr. HILL. And in order to avoid higher taxes on the holding company they would pay that as dividends?

Mr. FERGUSON. Yes.

Mr. BROOKS. Does not the parent company hold enough stock so they can transfer the money?

Mr. FERGUSON. We hold the stock.

Mr. BROOKS. You say the money has to be paid to the stockholders. Does not your parent company hold enough stock so it can pay it to itself in order to meet the Seth Thomas Co. needs?

Mr. FERGUSON. We hold all of the stock, but it is the money we want to get.

Mr. BROOKS. Are you not entitled to that money, the same as the stockholders?

Mr. FERGUSON. No, sir; because if it is declared we pay the dividend into the parent company, and the parent company has the money, and it is money that it has received as dividends under the law.

Mr. BROOKS. Can you not take the dividends on the stock of the parent company and apply that?

Mr. FERGUSON. No; they will not let us do that.

Mr. BROOKS. You have to give it to the stockholders?

Mr. FERGUSON. Yes.

Mr. BROOKS. Even if the parent company holds the stock?

Mr. FERGUSON. Yes, sir; that is the point I am trying to bring out.

Mr. BROOKS. I do not understand that. Do you mean to say that if your parent company has 1,000 shares of the stock of the Western Clock Co. and your stockholders have 1,000 shares, and Western Clock Co. declares a dividend to the parent company, your 1,000 shares do not get any dividend?

Mr. FERGUSON. Which 1,000 shares?

Mr. BROOKS. That the parent company holds.

Mr. FERGUSON. Yes.

Mr. BROOKS. They get a dividend?

Mr. FERGUSON. Yes.

Mr. BROOKS. What can you do with that money?

Mr. FERGUSON. We have to pay it out to the stockholders of the parent company.

Mr. BROOKS. You have dividends on 2,000 shares?

Mr. FERGUSON. The General Time Instruments Corporation owns all the stock of the Western Clock Co. If the Western Clock Co.

declares a dividend that goes to the General Time Instruments Co. because it owns all of the Western Clock Co.'s stock.

Mr. BROOKS. Yes.

Mr. FERGUSON. We have received that money as dividends, and under the law we have to pay it out today or be taxed on it 30 or 40 percent.

Mr. VINSON. What you want is this: You want to take the net income earned by one of the subsidiaries and use it in the business of the other subsidiary without paying any tax to the Federal Government.

Mr. FERGUSON. I would not want to put it exactly that way.

Mr. VINSON. That is really what it is. You take the net income in your subsidiary that is earned?

Mr. FERGUSON. Yes.

Mr. VINSON. And you do not want to pay any taxes on it?

Mr. FERGUSON. No; let me show you how it works in practice.

Mr. VINSON. I am asking you; I may be awkward in my statement of it, but is not that about what you have in mind?

Mr. FERGUSON. We want to take that money and use it for the benefit of any other subsidiary that is on the rocks.

Mr. VINSON. That is what I said. You want to take the net income of one subsidiary and not pay any taxes to the Federal Government on it because you want to take it and use it for another subsidiary?

Mr. FERGUSON. But we will pay taxes on that as a corporation; but we do not want to be subjected to a tax of 30 or 40 percent on the theory that we were a personal holding company.

Mr. VINSON. You have something else in the back of your head, have you not?

Mr. FERGUSON. No.

Mr. VINSON. Are you not thinking about the suggestion of a tax on intercorporate dividends, are you not thinking about that?

Mr. FERGUSON. Yes, but I am chiefly thinking about one thing, and that is this. You passed a law for personal holding companies that was to stop the accumulation of dividends and interest in holding companies designed for the particular purpose of avoiding the payment of the tax.

This corporation was formed purely for business reasons; but due to the wording of that law it happens that five people by blood relation own more than 50 percent of the stock, and we are not trying to avoid the payment of taxes.

Mr. VINSON. It seems to me regardless of your purpose, whenever you want to use the income earned by the parent corporation you want to use it without paying any taxes, and that is pretty close to wanting not to pay taxes.

In your business you would be affected particularly by the recommendations in the message of the President in which he said that—

The most effective method of preventing such evasions would be a tax on dividends received by corporations.

That is true, is it not?

Mr. FERGUSON. Yes.

Mr. VINSON. Your parent company, if they received dividends from a subsidiary, if the recommendations contained in the message were

carried into effect, would have a tax imposed upon the dividends from the subsidiary, paid into the holding company?

Mr. FERGUSON. That is correct.

Mr. VINSON. You are not objecting to that?

Mr. FERGUSON. I am not objecting to that.

Mr. VINSON. What about this part of the President's message, where he says:

In addition to these three specific recommendations for changes in our national tax policies, I commend to your study and consideration a number of others. Ultimately, we should seek through taxation the simplification of our corporate structures through the elimination of unnecessary holding companies in all lines of business.

Are you in favor of legislation of that kind?

Mr. FERGUSON. No; I think a holding company such as ours has an economic reason behind it. We are not a large company. The two companies were put together to make diversified time instruments. It is the common interest in the condition of a business of that kind which has acted for economy of production, and so forth.

Mr. VINSON. To strike out the word "dividends" in section 351 would practically destroy that section, would it not?

Mr. FERGUSON. Yes; I am not asking for that. I am asking simply that we do not be classified under the term which the laws was designed to hit and they hit us, which I do not think was the intention.

Mr. COOPER. When was your holding company organized?

Mr. FERGUSON. In November 1930.

Mr. COOPER. Your holding company was organized in November 1930?

Mr. FERGUSON. Yes.

Mr. COOPER. When were your operating companies organized?

Mr. FERGUSON. The Seth Thomas Clock Co. is 118 years old; it is one of the oldest companies in that business in the country.

Mr. COOPER. I am familiar with it. When was the other operating company, the Western Clock Co., organized?

Mr. FERGUSON. The Western Clock Co. was organized in 1882, as I recall.

Mr. COOPER. You were organized as a combination for the very purposes you have been accomplishing, were you not?

Mr. FERGUSON. Yes.

Mr. COOPER. That was to take care of the tax question?

Mr. FERGUSON. I beg your pardon. No; there was never a thought of that kind, because this question was not up in 1930. We did it, as I tried to state, for economic reasons, to put these two companies together, two diversified time industries, on a common industrial basis.

Mr. COOPER. What is the reason why you cannot merge these two companies and have one operating company?

Mr. FERGUSON. Because we think it is very important for two companies as old as they are to maintain their trade names.

Mr. COOPER. One company could make both kinds of clocks under their trade names, could they not?

Mr. FERGUSON. One company could do it, and we could get around it, but we think it is much better to operate under these conditions. I want to leave the impression most positively that this is not a company that was formed with the idea of avoiding taxes. We do not want to avoid just taxes in any way, but we think this is a penalty tax, under the definition.

Mr. COOPER. Whether you organized your company specifically for that purpose or not, you are accomplishing that purpose now, are you not?

Mr. FERGUSON. Yes; but we could pay out to the stockholders, under the law, all the dividends we receive from the Western Clock Co. to the stockholders at the end of the year and not have a dollar left in the treasury, and there would be no tax to be collected. We do not want to do that. We want to use this money, and we have held up the Seth Thomas Clock Co. for the last 3 or 4 years; we have put money in there to hold that company up. Now we are tied.

Mr. COOPER. Then, of course, if you do as you have been doing, I assume, you would take the money out of the Western Clock Co. and use that money for the Seth Thomas Clock Co.

Mr. FERGUSON. Yes.

Mr. COOPER. Of course, in that way, you accomplish the purpose of not paying the tax on the profit you make out of the Western Clock Co.?

Mr. FERGUSON. That is the profit itself, but we do not want to get into this supertax, this 30 or 40 percent tax because of the definition hitting us.

Mr. COOPER. How much have you paid under that?

Mr. FERGUSON. Last year we paid very little.

Mr. COOPER. How much have you paid, all told, under this provision you are criticizing?

Mr. FERGUSON. It has only been in effect 1 year, but we have paid a thousand-dollar tax, but we paid it out in dividends, and we still have dividends unpaid of about 12 percent in the Time Instruments Co., and our stockholders want the money.

Mr. HILL. If you take the profits which your personal holding company receives from the operations of the Western Clock Co., and you have to finance the Seth Thomas Co., you would have to do that through a loan to the Seth Thomas Co., would you not?

Mr. FERGUSON. Yes.

Mr. HILL. You would still have the assets there, and you would have the security backing that?

Mr. FERGUSON. We would do it through a loan.

Mr. HILL. When you had both companies operating independently without any personal holding company, there was no difference between the two?

Mr. FERGUSON. None whatever.

Mr. HILL. Each company paid its taxes, each company paid its corporate taxes, distributed its dividends, if any, to its stockholders, and the stockholders then paid surtaxes upon the dividends so distributed?

Mr. FERGUSON. That is correct.

Mr. HILL. When you organized your personal holding company, under the consolidated returns, you might offset losses in one against losses in the other. When the consolidated returns were abolished, it left you in the unfortunate situation where you were a personal holding company, acting under the provisions of section 351?

Mr. FERGUSON. That is quite true.

Mr. HILL. Is there any compelling reason why you should be placed in a different attitude simply because you loan your personal holding company's moneys to one of your subsidiary operating companies?

Mr. FERGUSON. We have done it in a spirit of economy, to maintain that company.

Mr. HILL. You have not reduced your assets; you have simply taken securities instead of money, and you still have the securities?

Mr. FERGUSON. Yes.

Mr. HILL. And you still have that accumulation of profits in the personal holding company; that is the thing I am driving at.

Mr. FERGUSON. All that holds the holding company is the stock of the two subsidiaries.

The CHAIRMAN. We thank you for your statement. The next witness is Mr. George B. Chandler, of Columbus, Ohio.

Will you give the reporter your name and address and the capacity in which you appear?

STATEMENT OF GEORGE B. CHANDLER, COLUMBUS, OHIO, SECRETARY OHIO CHAMBER OF COMMERCE

Mr. CHANDLER. Mr. Chairman and gentlemen, my name is George B. Chandler. I live in Columbus, Ohio. I am the secretary and chief administrative officer of the Ohio Chamber of Commerce. This is the largest State-wide business organization in Ohio, comprehending the leading concerns in all departments of business. We are the oldest State chamber of commerce in the United States and one of the largest. In our membership are 78 local chambers of commerce, including the great chambers of Cleveland, Cincinnati, Toledo, Columbus, Akron, and Dayton, and 4,629 individual corporate and representative members.

In all this fabric of "new deal" legislation presented at this session of Congress, the Ohio Chamber of Commerce is the only organization, so far as I know, that has appeared before Congress representing a State, or the viewpoint of the States.

At the time I left my office in Columbus the President's tax program had not been embodied in the form of bills, but was a series of tentative suggestions.

My information regarding them came from the press and from a copy of the statement made by the Secretary of the Treasury before this committee on Monday, the 8th instant. I understand it is proposed to raise a sum ranging somewhere between \$100,000,000 and \$900,000,000 through four forms of taxation. I am following the statement by the Secretary of the Treasury.

1. Eighteen schedules relating to inheritance and gift taxes.
2. Six schedules relating to increased bracket rates on large individual incomes.
3. Three schedules relating to a graduated corporation income tax.
4. Partially removing the present total tax exemption of dividends received by corporations.

I am not here to discuss in detail these proposed taxes, but to oppose, in toto, any added taxes at this time.

The members of the Ohio Chamber of Commerce are not tax dodgers. If and when the President and the Congress seriously undertake the task of balancing the Federal budget, and if and when the present orgy of spending is halted, and this Nation enters upon the Herculean task of amortizing the huge national debt, which may amount in the

end to a figure of approximately \$50,000,000,000 before we are through, the business interests of Ohio will bear their full and fair share of the burden without protest or complaint. But under present conditions we feel—we may be wrong—that pouring more money into Washington is like throwing water into a sieve.

Not only do we disapprove the wastefulness and intineliness of these proposals, but the business interests of Ohio resent and protest against the announced purposes of these new taxes. Redistribution of wealth through the tyrannical agency of taxation affronts every principle of sound Americanism and every established tenet of economics. The old epigram, "The power to tax is the power to destroy" is of eternal application, and has been so far as I know.

Mr. VINSON. Where do you get in the President's message anything about the question of redistribution of wealth?

Mr. CHANDLER. It is there by implication.

Mr. VINSON. That is your conception of it?

Mr. CHANDLER. That is the conception adopted by the press and the people who follow the President all over the country.

Mr. VINSON. If it is a redistribution of wealth, how much would you get out of it, or anybody else. Redistribution of wealth means only one thing.

Mr. CHANDLER. Before I get through I will show you that nobody will get anything out of it.

Mr. VINSON. Then evidently it is not redistribution of wealth.

Mr. CHANDLER. If you will just be patient I will show you how that works out.

Mr. VINSON. I notice you have some wild statements in your remarks, such as this, that "The people will bear the burden without protest and complaint", which almost makes me smile.

Mr. CHANDLER. We may not do it "cheerfully", but we will have to do it without protest or complaint, because the debt will have to be paid.

Mr. VINSON. But you will be protesting?

Mr. CHANDLER. I presume so.

Mr. VINSON. And you have a perfect right to protest.

Mr. CHANDLER. I am not saying that the administration aims to destroy private property, nor am I ready to go along with Mr. Bainbridge Colby, Secretary of State under the Wilson administration in the suspicion which he voiced not long ago in a speech in New York, that the depression is being "wantonly" prolonged. Nor do I go with others who have recently voiced similar views.

I still prefer to believe that the President and, I am sure, an overwhelming majority of the Congress, are above all things anxious to see a complete revival of business, and consequent reduction of unemployment. On the other hand, I have not the slightest doubt that in the Washington menage—the inner group that surrounds the President and seems to have his ear—there are numerous conspirators who do not want prosperity to return and who do want to see private property in this country so discredited that the doctrines of Karl Marx shall be substituted for those of Washington, Jefferson, Hamilton, Lincoln, Cleveland, Theodore Roosevelt, Wilson, and Coolidge. A revival of business under the capitalistic system would be a crushing answer to their long, vociferous, and lying propaganda that our present economic system has played out and is responsible for the

depression; and that the only way out is through a reconstruction of society and government. This depression has provided an open season for agitators and revolutionaries.

What progress has been made toward their objective? I hold in my hand a table prepared by an Ohio statistician whose figures we have always found reliable. It is as of the year 1932. It gives the value of the total physical property of the United States at that time as \$201,000,000,000. It gives the total debts of the United States, public and private, as \$237,000,000,000. I have seen more optimistic figures than these from other sources, although not differing enough materially to lessen the menace. I am told that private debts have decreased since 1932, but that the increase in governmental debts has probably about offset this decrease. Evidently this Nation in its broad aspects is hovering around the precipice of insolvency.

How far has the destruction of private wealth through taxation progressed? The Federal Government has already explored the field of taxation and, in the opinion of the Ohio Chamber of Commerce as expressed in votes of its membership, has improperly invaded sources of taxation properly belonging to the States. I refer to the gasoline tax and certain luxury taxes.

In this division of tax fields between the States and the Nation, the States have been equally offensive, many of them having levied an income tax on top of the Federal income tax. Both political divisions are sinners in this regard. One of the official declarations of the Ohio Chamber of Commerce is in favor of a division of the field of taxation between the States and the Nation and a committee of the chamber met at Cincinnati on Wednesday of this week and have made certain recommendations. Federal taxes already are unduly burdensome. The series of proposals before this committee if enacted into law will add several hundred million dollars to the Federal tax burden.

But this is only part of the picture. The Congress is about to enact the social-security bill which levies a progressive tax upon pay rolls, beginning in 1936 with 1 percent and gradually increasing through 1949, I believe, to 9 percent. By 1950 the annual tax to support the social-security program will be approximately \$4,000,000,000 a year. The total cost of this tax between now and 1950 will exceed \$41,000,000,000.

Of this, about \$28,000,000,000 will be provided by the pay-roll taxes levied in the bill. The balance of approximately \$13,000,000,000 must come from general taxation or from borrowing. We now have a national debt of approximately \$28,000,000,000—I think it is \$28,700,000,000—and to this should be added about \$8,000,000,000 for sums already voted and for commitments already made. So we can look forward within the next year and a half or 2 years for a total assured Federal indebtedness of \$35,000,000,000 or \$36,000,000,000. How much further this will proceed no one knows. I hope, however, that the ultimate figure of \$50,000,000,000 upon which I hazarded a guess earlier in my statement further back is extravagant. But nothing would surprise me. A plan for amortization of this debt, whatever it may be, must be entered upon in the not distant future. The burden will be tremendous, and Federal taxation will mount by leaps and bounds.

I represent the States here also. The Congress cannot afford to forget the plight of the States and local taxation districts. Ohio has no State debt, being precluded from incurring such a debt, except for a minimum amount of \$750,000, by its constitution. But at a special session of the general assembly, to be called probably in September, we face a grave situation. It staggers business. Please understand that in Ohio all of the expenses of the so-called "general revenue fund" of the State, which is the fund that supports the operations of the State government, are paid by indirect taxes upon business. Real estate does nothing to support our State government.

The most conservative estimate which any statistician is willing to hazard indicates that new State taxes which will yield \$25,000,000 will have to be enacted. This is a sum \$2,000,000 greater than the present cost of maintaining all of the regular State government departments, exclusive of highways. As a matter of fact, the sums to be raised in new taxes will amount, in my personal opinion, to between \$30,000,000 and \$35,000,000 a year.

In view of the fact that the State of Ohio already has a retail-sales tax, a liquid-fuel tax, a cigarette tax, high intangibles taxes, and so forth, the sources of new taxes are rather limited, and would be further restricted by the enactment of the Federal share-the-wealth tax program.

Local government in the States should be a matter of interest to this committee. Ohio is a rich State. We believe that our cities, counties, townships, school districts, and State are as well governed as those of other States on the average, but we have been compelled to levy a 3-percent sales tax to raise approximately \$60,000,000 a year, of which 60 percent goes to help finance local school districts, and 40 percent to help the municipalities—in other words, to keep our schools open and our fire departments, sewage departments and other departments of local government in operation.

Still another picture which I suspect is also typical of the Nation at large. According to the latest figures, there are about \$200,000,000 of delinquent personal property taxes on the books of the various municipalities and taxing districts of Ohio.

Perhaps Ohio is not typical of the States of the Union because it is more highly industrialized than the average State, but the tax to support Ohio's share of the social-security program will reach the astounding figure of \$245,000,000 a year.

This exceeds the present cost of operating all departments of government in the State of Ohio—State, city, school districts, townships, and counties. We have not accurate figures, but our research department believes it equals practically the total cost, plus interest charges. Similar conditions must exist in comparable industrial States. The picture is appalling. If we ever are forced off the capitalistic basis and into the socialistic maelstrom, it will not be by the wily propagandists that are yelping out of Washington and from soap boxes on street corners throughout the country, but because the people are eaten up by taxation. It will be because private property has been absorbed by Government. That is America's real danger.

It is on these broad grounds that the business interests in Ohio, as represented by the organization whose central office I administer, oppose the untimely imposition of new taxes levied for obviously political effect, which may cost the businessmen of Ohio in excess of

\$20,000,000 a year in added Federal taxes. According to the maximum figure given by the Secretary of the Treasury, it might run as high as \$50,000,000 a year.

The Secretary of the Treasury in his statement made to you on Monday of this week said that these proposed taxes "rest on the principle of ability to pay." This old principle enunciated by Adam Smith is essentially sound, but there is a limit to which it can be carried. As you keep on applying it, you approach nearer and nearer to confiscation, nearer and nearer to the destruction of the very agencies by which employment is furnished and business is carried on. Moreover, it is an inexcusable fallacy, which may appeal to the man on the street corner but which would not be approved by any sound economist, that magnitude is not the measure of ability to pay. A solvent small concern might be just as able to pay as a solvent large concern. Solvency, not size, is the measure of ability.

I now come to another aspect of these proposals, the progressive corporation tax. Several successive annual meetings of the Ohio Chamber of Commerce have enunciated the principle that the chamber is opposed to taxation based upon or motivated by "the mere size or number of units of the concern or corporation taxable." When from year to year our annual meetings repeatedly enunciated this principle, we had no idea it would apply so aptly to the proposal now before this committee. I understand it is proposed to start the taxation of a corporation somewhere about 9 or 10 percent and run the taxes up into 16 or 17 percent.

Whatever the figures may be, it is a progressive and inequitable tax. Whether it will in the end prove to be a vote-getting tax I very seriously question. The American people, even the poorest of them, hate injustice.

This destruction of mere magnitude is the child of demagogy, not a child of economics, and the evils, if such there be, are corrected by the Sherman Antitrust Laws. Your European nations do not discourage magnitude. They rather encourage it. The United States is in keen competition with the other nations of the world. This form of taxation would reduce our efficiency in world competition. Only the big American corporations can compete with the big European and Japanese corporations. Let us not overlook Japan, the most dangerous international competitor we have. For example, Japan is flooding us with electric-light bulbs. How could America compete with her without the General Electric?

Note what magnitude has done in the case of automobiles, the pride of the Nation—the Ford plant, General Motors, and Chrysler. What a splendid contribution Henry Ford and his plant have made to the automotive industry.

He has placed cheap, fast, durable, and efficient cars, of his own and other comparable makes, within the reach of persons of moderate means. A hodge-podge of little plants scattered all over the country would increase the price of a \$500 automobile several hundred dollars—I think I will cut out that "several hundred dollars" appearing in the manuscript. I will say that it would "materially" increase it—and probably furnish poorer machines.

Illustrations of the efficiency of great units could be multiplied definitely.

I now come to the most important factor in this situation. That is this amazing philosophy of redistribution of wealth through taxation. This is the aspect of this bill which has aroused the greatest indignation among business men and private investors. It destroys confidence and is the arch foe of recovery.

This is not redistribution of wealth; it is redistribution of poverty. Society is not levelled up by such abrupt and artificial processes; it is only levelled down. Levelling-up is a long process of the generations.

More than a year ago when the National Education Association met in Cleveland, another of these famous Columbia professors came to Ohio and gave a socialistic talk before the school teachers of Cleveland. And he made some progress, although the National Education Association turned his proposals down cold.

We have in Ohio an able economic writer by the name of Dale Cox, who is on the staff of the Cleveland Plain Dealer, the leading paper of Ohio—Democratic in its politics. Mr. Cox commented on Mr. Miller and his redistribution-of-wealth philosophy, challenging his statement that 2 percent of the people control 80 percent of our wealth. Says Mr. Cox—and these utterances of Mr. Cox are peculiarly pertinent:

Professor Miller would have difficulty proving that to a true scholar. Any one who has studied the highly authoritative study by Willford Isbell King of the National Bureau of Economic Research, understands how enormously complex is the distribution of wealth and income. In the lives of the average person—school teachers included—income is much more important than wealth, because none of us can live for long on our wealth; we must have income.

The Department of Commerce has just issued estimates of our national income for the 4 years, 1929 to 1932. In 1932, out of \$49,000,000,000 in national income distributed, labor got \$32,000,000,000, management \$9,000,000,000, dividends \$3,000,000,000, and interest \$5,000,000,000. All 1932 income could have been taken away from management, bondholders, and stockholders, and labor would not have grown rich.

So, Government figures prove that a redistribution of income can correct no great wrong. We need more income, not a redistribution.

Mr. Miller and those who believe as he does can proceed to redistribute wealth by confiscating the wealth of those who have and distributing it to those who do not have by way of Federal emoluments. But every attempt at that in the world's history has not made the poor richer, but has only made the rich poor.

One can go back to the history of ancient China and study the redistribution of wealth attempted from 1067 to 1085 A. D. by the socially minded premier Wang An Shih, as chronicled by the famous Chinese historian, Ssu Ma Kuang. Wang An Shih thought that since equality of wealth was not possible, then equality of poverty was preferable. Since he knew he could not make all the poor rich, he proceeded to make all the rich poor. That at least was justice, he thought. But for China it was disastrous.

The practice of the Greek city-state of Athens and, in fact, of some other city-states existing in the period of requiring wealthy men to support a navy, each man being required to support from one to several ships from his own income, finally led to the complete destruction of not only the ability of these men to carry on the commerce of the time but also destroyed the very economic existence of the state. The burden of maintaining and supporting a nonproductive enterprise consumed the working capital.

The destruction of private property, the centralization of government in Rome, and the fall of the Roman and Greek civilizations plunged the world into the 1,000 years of the Dark Ages. I hope we are not coming to it in western civilization. Finally, certain families in Europe accumulated property in sufficient quantities to be known

as "wealthy families." Outstanding among these were Bardi, Peruzzi, Strelsi, Medici, and Fugger families, and their kindred. Based upon this private wealth and the development of trade and the development of colonies, civilization—as well as the revival of learning, of course—emerged from its darkness into the greatest period of progress in the history of the world.

This, I admit, was a clumsy and unsocial method of accumulation of private wealth for economic use. Since then we have democratized wealth through the invention and general use of the corporation. The question arises, Are we going to adopt the policies of destroying the accumulations of capital upon which production and economic progress depend? Is the vicious cycle of history to be repeated in the United States of America?

Of course, the most striking modern example—indeed, the wierdest example of all time—of redistribution of wealth is Soviet Russia. Here they have not redistributed it. They have simply taken it away and killed off its owners. Maybe some of the oily propagandists that are whispering around Washington think Russia is a better country to live in than the United States. If so, the seas are open to them.

This undisguised proposal now before your committee to redistribute wealth through a progressive corporate income tax, and confiscatory inheritance and personal income taxes is 1 of the 6 major menaces that hang over the country like a black cloud, and are holding back the recovery that is "arin' to go".

The other five are (1) the destruction of representative government by converting Congress into a "rubber stamp". I had this phrase cut out, but since I read the papers this morning I decided to have it in. I notice the stock market took a nose-dive yesterday. (2) Fomenting hostility to our Constitution and hatred of the Supreme Court. I resent a speech made by a Member of your House, down in Virginia. I resent another speech made by another Representative of the House against our Supreme Court. I resent what was passed around here after the decision was rendered, according to the newspaper reports. Why, gentlemen, it is terrifying. (3) The entry of Government into private business on a huge scale; (4) the destruction of the rights of the States and centralization of power in Washington; and (5)—and here is the most important thing, because you are killing the very morale of our people—creating a race of mendicants, loafers, and weaklings through abuse of "relief" and sentimental social legislation.

The thinking people of this country of both major political parties have been tremendously heartened by two recent events, the first being the N. R. A. decision of the Supreme Court and the second the reassertion, temporarily at least, by the lower House of Congress of its right of independent action on the "death penalty" bill.

If this assertion by all branches of government of their inalienable right to think is maintained, we shall in due time return to the balanced government of legislative, executive, and judicial departments set up by our forefathers and under which for more than a century and a half we have lived and prospered, and in which every member of this committee in his heart enthusiastically believes.

MR. REED. I should just like to ask this question, Mr. Chairman. Mr. Chandler was questioned by a member of the committee when he

made the statement with regard to the redistribution of wealth. Let me read from the President's message, where he said:

Because of the basis on which this proposed tax is to be levied and also because of the very sound public policy of encouraging a wider distribution of wealth, I strongly urge that the proceeds of this tax should be specifically segregated and applied, as they accrue, to the reduction of the national debt.

Mr. VINSON. Mr. Chairman, I want to state that I looked through the statement of the gentleman and really what I took issue with, or attempted to, was the statement that occurs later on, about sharing the wealth.

Mr. CHANDLER. Yes.

Mr. VINSON. I notice that you say that one of the menaces is sentimental social legislation.

Mr. CHANDLER. Yes.

Mr. VINSON. I take it that you are referring in part to the purposes sought to be effected in the social-security bill.

Mr. CHANDLER. Yes, sir. I could talk to you a half an hour on that, but I am not going to.

Mr. VINSON. I should just like to ask you a question. I take, then, that you oppose old-age pensions?

Mr. CHANDLER. I understand it is unpopular to oppose it and that it is going to be passed, but let me tell you this—

Mr. VINSON. I am not asking for a stump speech.

Mr. CHANDLER. There is nothing so destructive of the fiber of American society and which will be so destructive as the years go on as taking away from the young man, or in his middle and mature life, the ambition, the necessity, of saving money for his own old age.

Mr. VINSON. I am asking you the question, you are opposed to old-age pensions as provided in that bill?

Mr. CHANDLER. Yes, sir.

Mr. VINSON. And pensions for the blind?

Mr. CHANDLER. Oh, that is a different case.

Mr. VINSON. Well, that is in that bill.

Mr. CHANDLER. Well, I do not know that I would oppose that. I had not thought that out.

Mr. VINSON. Are you against the provisions in that bill for Federal contributions to States for public-health programs?

Mr. CHANDLER. I think that the Government in Washington cannot go on acting as a wet nurse for all the local subdivisions of this country. You have got to place responsibility where it belongs, in the local taxing districts and in the States.

Mr. VINSON. Am I correct in thinking that you are against the unemployment insurance feature of the social-security bill?

Mr. CHANDLER. The trouble, Mr. Congressman, with the unemployment insurance is that it only pays compensation for a few weeks. It would not survive through a long depression. Furthermore, they would like to get rid of it in England. Organized labor in England has declared against it.

Mr. VINSON. I am asking you for your own personal opinion. Are you against the unemployment insurance provision as contained in the social-security bill?

Mr. CHANDLER. I think it is exceedingly unwise. I would like to pay wages high enough to encourage thrift, so that a workman can save money to take care of these periods.

Mr. VINSON. I take it from that last statement that you ought to be in favor of title II.

Mr. CHANDLER. Which is——

Mr. VINSON. Which provides for old-age annuities, where the employee makes payments and the employer makes payments to set up a fund to take care of the aged.

Mr. CHANDLER. Mr. Congressman, I am very emphatically opposed to that—to the Government entering into competition with private insurance companies. There are 10,000 agencies in the United States where any young man of any thrift can provide annuities for an old age.

Mr. VINSON. In your prepared statement, you refer to a 9-percent tax on pay rolls.

Mr. CHANDLER. I qualified that, when I read it.

Mr. VINSON. Do you not know that there is not a 9-percent tax paid when the maximum rates are reached—9 percent by the employer?

Mr. CHANDLER. I was not sure when I wrote this. You remember I qualified that, and said that I thought it was 9 percent.

Mr. VINSON. I understood that qualification to mean that the time when the maximum was reached would be 1949.

Mr. CHANDLER. Yes; 1949.

Mr. VINSON. That is what I thought you qualified. You did not make any qualification about the 9 percent. You are not saying here, as a representative of a great institution, that the employer will pay 9 percent when the maximum rate is reached, will you?

Mr. CHANDLER. I think it will come out of the pay rolls; 28 billion dollars out of 41 billion to be raised between now and 1950 will come from the pay rolls.

Mr. VINSON. You do not mean the pay rolls of the employers?

Mr. CHANDLER. I understand so.

Mr. VINSON. I want to call your attention to the fact that the 9 percent figure that has gone out over the country may have misled you; I can very easily understand how you got that 9 percent figure, because that is a common mistake that has appeared in the press.

Mr. CHANDLER. Yes?

Mr. VINSON. The 9 percent is reached by taking 6 percent on the pay roll of the employer and 3 percent that is paid by the employee.

Now, as to the unemployment insurance, the employer, when the maximum rates are reached, pays 3 percent and the employee pays 3 percent.

Mr. CHANDLER. Yes; is that it?

Mr. VINSON. No; I have that wrong. I am speaking now of title II, the matter of the annuities.

Mr. CHANDLER. Yes.

Mr. VINSON. That is what I am speaking of.

Mr. CHANDLER. The annuities?

Mr. VINSON. The employer, when the maximum is reached, pays 3 percent and the employee pays 3 percent?

Mr. CHANDLER. Yes.

Mr. VINSON. When the unemployment insurance title is reached, the maximum is 3 percent paid by the employer or the employee, as the State may determine.

Mr. CHANDLER. Yes.

Mr. VINSON. The Federal Government does not enter into the jurisdiction of the State in respect of how that money shall be paid. Consequently, it is an error that you really should not be criticized for falling into—but nevertheless it is an error when you talk of 9 percent being paid by the employer when the maximum rates are reached.

Mr. CHANDLER. Well, I think it is a distinction without a difference.

Mr. VINSON. Oh, no.

Mr. CHANDLER. It comes out of the industry. Take the American Rolling Mill at Middletown, Ohio, for example. Six percent comes from the pay roll; 3 percent comes from the employees. It makes no difference. It comes out of the industry.

Mr. VINSON. There is quite a difference. Then there is another feature that may reduce the maximum rate quite considerably.

Mr. CHANDLER. Yes?

Mr. VINSON. You say in your prepared statement that under the maximum estimate that has been submitted here on schedules presented by the Secretary of the Treasury, Ohio would pay \$50,000,000.

Mr. CHANDLER. A year; yes.

Mr. VINSON. Is that correct?

Mr. CHANDLER. We use the multiple 6, Mr. Vinson.

Mr. VINSON. I am just asking you whether that is correct.

Mr. CHANDLER. Yes.

Mr. VINSON. Why were you not fair enough to say that if the minimum rates were adopted, instead of the \$20,000,000 referred to in your statement, you would only pay on that same proportion, 5½ million dollars?

Mr. CHANDLER. Well, perhaps it would have been fairer, although I assume that this committee is not going through the motions, and Congress is not going through the motions, of passing a tax program that does not produce three or four hundred million dollars.

Mr. VINSON. But do you not think it is fair, when you deal with limits, a minimum and a maximum, to carry through your calculations on both ends?

Mr. CHANDLER. I think it would have been fairer. It is not a very serious error. I think perhaps I should have used that minimum, too.

Mr. VINSON. You speak of the graduated corporation tax, and from what I heard and from what I read here, I understand you to feel that that is not a proper method of taxation.

Mr. CHANDLER. I do not think it should be stepped up as companies grow bigger.

Mr. VINSON. You referred particularly to the matter of taxing magnitude.

Mr. CHANDLER. Yes.

Mr. VINSON. You do not favor taxing magnitude?

Mr. CHANDLER. No.

Mr. VINSON. As I understand it, you believe people should pay in accordance with their ability to pay?

Mr. CHANDLER. Yes.

Mr. VINSON. What would you say if Congress were to propose an excess-profits tax? Would that be in line with your idea of taxing in accordance with ability to pay?

Mr. CHANDLER. No. Nothing would be in line with my idea of justice which did not tax all business of the same kind, on a level.

Mr. VINSON. That is all.

Mr. FULLER. Mr. Chairman, I should like to ask one or two questions. Mr. Chandler, has your chamber of commerce in Ohio gone on record as being opposed to old-age pensions?

Mr. CHANDLER. Yes, sir.

Mr. FULLER. I notice that your State has gone on record in favor of it.

Mr. CHANDLER. The people voted that. They will vote anything where money comes to them.

Mr. FULLER. Your chamber of commerce is opposed to taking care of the blind and the widows whose husbands have left them with helpless children?

Mr. CHANDLER. Oh, no. When I appeared before the Senate committee, of which Senator Pat Harrison is chairman—I forget what the name of the committee was—I said that one aspect of this social legislation which we favored was mothers' pensions, because the family is the unit of society and the family should be held together.

Mr. FULLER. Then in your zeal to belittle this administration and its measures you do nevertheless find a little ray of hope, some good that has been done, the taking care of the widows and their children.

Mr. CHANDLER. The administration did not do that. It has been done for years in Ohio.

Mr. FULLER. It has never been done in a national way. It has never been done except in a few of the States, and even in your State it practically amounts to nothing, because you do not collect enough revenue to take care of them properly.

Mr. CHANDLER. Oh, no. Our mothers' pension bill has been working for years and working satisfactorily.

Mr. FULLER. I supposed that your appearance here was for the purpose of giving us some information as to why we should not pass this so-called "tax bill."

Mr. CHANDLER. That is it. "No new taxes at this time."

Mr. FULLER. But your statement is a political speech covering all of the shortcomings of and grievances against the present administration, which you have enumerated.

Mr. CHANDLER. Absolutely not. I have been discussing the fundamental economics underlying this whole proposition.

Mr. FULLER. And in discussing these fundamental principles, you have taken up and criticized practically every measure that this administration has favored, such as the social-security bill, money that has been appropriated to take care of people in your own State that are starving and distressed, and every other measure of any consequence; and you have villified the administration in this report that you have filed with this committee, have you not?

Mr. CHANDLER. I am not conscious that I have vilified it.

Mr. FULLER. You may not have used that word, but it is a denunciation of the administration.

Mr. CHANDLER. It is a disagreement with the administration.

Mr. FULLER. And you come to us to tell us that we have been "rubber stamps"?

Mr. CHANDLER. I do not think I care to withdraw that phrase. It is rather an offensive phrase but I think I will let it stand.

Mr. TREADWAY. Many believe that it is true.

Mr. FULLER. Have you noticed that with reference to these various measures, a majority of the Republicans in the House, practically all of them, have voted with the Democrats for the enactment of those measures?

Mr. CHANDLER. No; we do not notice that, because—listen to this, Mr. Fuller—your rules in the House are such that we never can tell how Members vote.

Mr. FULLER. You have come to the conclusion, as you state in this memorandum or political speech or whatever it is, that you have filed with the committee, that the sole object and purpose of this proposed tax levy is political—for the purpose of obtaining votes for the administration.

Mr. CHANDLER. I am reflecting the general views of the press, that this was brought out at this particular time as a compliment to one gentleman from Louisiana.

Mr. FULLER. We want to be clear on that because all witnesses, when they are on the stand, are tested as to their credibility, in order to determine what weight should be given to their testimony. That is the reason I ask you these questions, because although what you have said may go well with the newspapers, it may not go so well with a great many people.

Mr. COOPER. Will the gentleman yield there?

Mr. FULLER. Yes.

Mr. COOPER. Do you include in your scope of criticism of measures passed during this administration the 1934 Revenue Act?

Mr. CHANDLER. The 1934 Revenue Act? Wait a minute—I am at a loss there for a moment. I do not care to comment on that.

Regarding our criticism of the administration, Mr. Chairman, the Ohio Chamber of Commerce at its last annual meeting held in Toledo, Ohio, passed some resolutions entitled, "An appraisal of the 'new deal'." I will mail them to the committee, if we have sufficient copies left, in order to show that we are trying to be fair. There were nine of the activities of the "new deal" which a year ago we found had contributed to some extent to recovery. We found about an equal number which had retarded recovery.

Mr. COOPER. I did not ask you for any stump speech. I just asked you a plain question.

Mr. CHANDLER. Well, I did not try to make a stump speech.

Mr. COOPER. And I think I am entitled to an answer.

Mr. CHANDLER. Well, what is the question?

Mr. COOPER. Did you include in the scope of your criticism the measures enacted since this administration assumed the control of the affairs of Government, the 1934 Revenue Act?

Mr. CHANDLER. No, sir.

Mr. COOPER. You are in agreement with that measure, then?

Mr. CHANDLER. I do not know enough about that, and do not care to comment about it.

Mr. COOPER. You do not know that Congress passed a revenue act in 1934?

Mr. CHANDLER. I did not study it prior to my appearance before you, because I did not think it would come up here.

Mr. COOPER. You do not know anything about that measure being enacted?

Mr. CHANDLER. I will not confess to such ignorance. Now that you remind me of it, I cannot say that I did not know that there was such an act passed, but I did not think that it was going to be an issue here today.

Mr. COOPER. Did you know that that measure passed the House with only seven votes against it, out of the entire membership of the House?

Mr. CHANDLER. Well, as a Republican, I am very glad that the members of my party supported the Government so loyally.

Mr. COOPER. There is no need for telling us that you are a Republican. We knew that already. Of all of the measures passed during this administration, you have picked out those that suited your purpose of criticism and have not given any thought or consideration to others that have been passed. Is not that a fair inference to be drawn from your statement here?

Mr. CHANDLER. I do not think it is a fair inference. I only brought into this discussion of this legislation those particular factors which were germane to the issue arising.

Mr. COOPER. And you do not think the revenue bill of 1934 is germane in connection with the consideration of a tax bill now?

Mr. CHANDLER. It is not germane to this new group of bills; no. That act is water under the bridge.

Mr. COOPER. And all of these other things to which you have referred that have no connection with revenue at all, are, in your opinion, entirely germane?

Mr. CHANDLER. They have a very close connection with revenue, because they show how the wealth of this country is being absorbed by taxation.

Mr. COOPER. But the 1934 revenue bill, in your view, has no connection sufficient to warrant consideration here at all?

Mr. CHANDLER. Why, it is deserving of consideration as a measure already upon the statute books, and under which we are collecting taxes. In my remarks I said that Federal taxes were already burdensome. Now it is proposed to add some new taxes.

Mr. COOPER. Do you consider the taxes levied under the 1934 act burdensome?

Mr. CHANDLER. Yes.

Mr. COOPER. And offensive?

Mr. CHANDLER. Not offensive. We have got to bear our burden.

Mr. COOPER. And objectionable?

Mr. CHANDLER. Not objectionable, because we have got to bear our share of the support of the Government.

Mr. COOPER. Which ones of those embraced in the 1934 Revenue Act would you consider burdensome?

Mr. CHANDLER. I said—did you say burdensome?

Mr. COOPER. Yes.

Mr. CHANDLER. All taxes are burdensome.

Mr. COOPER. All of them?

Mr. CHANDLER. Yes; I will not presume to enumerate them. You are putting me on the spot here, asking me the details of a law which I have not looked over, which I did not think would come up here. You are making inquiries of me concerning my opinion of the details of a bill which I have not studied. I do not think that is a fair question.

Mr. COOPER. But you come here criticizing this administration and all of the measures enacted under it.

Mr. CHANDLER. I do not.

Mr. COOPER. I am asking specific questions of you, but you are trying to evade a direct answer, by the type of statement that you have just made.

Mr. CHANDLER. I am not.

Mr. JENKINS. Mr. Chairman, I do not think this gentleman should be subjected to any such criticism.

The CHAIRMAN. Does the gentleman yield?

Mr. COOPER. It does not come within the province of the gentleman from Ohio to pass upon the character of questions I shall ask.

Mr. JENKINS. Mr. Chairman, I think every member of this committee ought to confine himself to a fair interpretation of what the witness has testified, and not to go far afield and not impute to him things that he did not say or did not even think.

Mr. COOPER. Well, what are you going to do about it?

Mr. JENKINS. I am not going to do anything. The witness can take care of himself.

Mr. COOPER. You cannot do anything.

Mr. JENKINS. The witness can take care of himself.

Mr. COOPER. Apparently you do not think he can, because you are trying to help him.

Mr. CHANDLER. Oh, I think I can take care of myself.

Mr. COOPER. I thought you could take care of yourself all right without the assistance, the gratuitous assistance, of the gentleman from Ohio.

Mr. CHANDLER. But you are interrogating me regarding specific details of a bill that was passed 2 or 3 years ago, which I did not dream would be an issue here today, and implying that I am not fair if I cannot remember those details. That is hardly fair questioning.

Mr. COOPER. Now, in all fairness, you say the bill was passed 2 or 3 years ago; it was passed just a year ago.

Mr. CHANDLER. Well, it was passed in the past. We have moved; time has lost its meaning in the recent months.

Mr. COOPER. That is about as accurate as many of the statements that you have made.

Mr. CHANDLER. Oh, no. What inaccurate statements have I made during my remarks?

Mr. COOPER. Well, in one place you speak of 30 billion of dollars and then you say you meant 30 million. Of course, a mistake of three ciphers means nothing to you.

Mr. CHANDLER. Really, are you going to be so unfair, Mr. Congressman, as to criticize me because I left those three ciphers on in my manuscript and then called attention to the error when I read my statement?

Mr. COOPER. I have finished, Mr. Chairman.

Mr. FULLER. Mr. Chandler, I understood you to say, not only in your prepared address but also in your oral remarks, that you thought that all taxes ought to be on an equality, on a level.

Mr. CHANDLER. All businesses of the same class should be taxed on the same basis. That was my statement.

Mr. FULLER. You do not mean by that that a man who makes \$5,000,000 a year net income should not pay more in proportion than a man who makes \$10,000 a year, do you?

Mr. CHANDLER. When I made that statement a minute ago, that they all should be taxed on a level, I was referring to the progressive corporation tax. Now, when you come to the progressive income tax, I understand that it is an established principle to increase the rate of taxation in the higher brackets.

Mr. FULLER. You were referring to all corporations being taxed on the same level?

Mr. CHANDLER. All that are in the same line of business; yes.

Mr. FULLER. You did not say anything about the individual. Should he be taxed on a level with everyone else? If so, will you explain how that would work?

Mr. CHANDLER. Well, Mr. Congressman, you are asking a hypothetical question.

Mr. FULLER. I am discussing your own statement.

Mr. CHANDLER. You are asking a hypothetical question and asking me to discuss an abstraction. As a matter of fact, for years in this country and elsewhere, we have had a progressive income tax, with higher rates in the upper brackets.

Mr. FULLER. Are you in favor of that? According to your statement here you criticize the proposed graduated schedule of taxation. Are you in favor of that kind of a tax?

Mr. CHANDLER. You are asking me my opinion on a hypothetical question.

Mr. FULLER. But you discuss that in your statement.

Mr. CHANDLER. I have an idea, if I were endowed with the plenary and ultimate power, and were enforcing taxes—I have an idea that I probably would tax all incomes on the same basis. I probably would, but I do not know.

Mr. FULLER. On the same basis?

Mr. CHANDLER. I presume I would, I do not know.

Mr. FULLER. In other words, you think that Mellon and Morgan and Ford, who make millions of dollars a year net profit, ought to be taxed on an equality with the little fellow who makes \$500 or \$1,000 or \$10,000 a year net?

Mr. CHANDLER. Are you talking about income tax or corporation tax?

Mr. FULLER. I am talking about the income tax.

Mr. CHANDLER. Well, you are taking an extreme case which sounds bad and would look bad in the record.

Mr. FULLER. Well, will you answer the question?

Mr. CHANDLER. I think that as an abstract proposition of justice, taxation should be equal upon all classes. But when you talk about these huge fortunes, about incomes of men like Rockefeller and Mellon—those men immediately reinvest their money in productive enterprise and use it for the employment of labor, and they make two blades of grass grow where one grew before.

Mr. FULLER. You do not answer my question. Let me ask you another question.

Mr. CHANDLER. Well, I did answer it.

Mr. FULLER. You did not say whether you favored a tax that would be on a level between the big fellow and the little fellow. That is the question I asked you.

Mr. CHANDLER. You are asking me an abstract question.

Mr. FULLER. I am asking you a question on a subject that you discussed in your statement.

Mr. CHANDLER. Which has no bearing whatever upon this bill. But I will say that probably, if I were endowed with plenary and ultimate power, I would probably tax all people alike.

Mr. FULLER. I thought you would. Now, you are attacking this bill which has for its object and purpose nothing else except the collection of an inheritance tax, a gift tax, and an income tax from corporations in the higher brackets. The proposal is to raise the corporation tax. You are opposed to that?

Mr. CHANDLER. I am opposed to making it higher than it is now. You already have it higher than it is in England in the upper brackets. In the bill that you passed a year ago, you provided taxes that are higher in the upper brackets than even the British have.

Mr. FULLER. That may be your opinion, but there are grave doubts about that. I do not think there is a man on the committee who will agree with you on that.

Mr. CHANDLER. I have the figures here and I will be glad to send them to you through the mails; those are the figures of the British income-tax rates in the higher brackets. They are available to anyone.

Mr. FULLER. Are you a member, through your organization, of the National Chamber of Commerce?

Mr. CHANDLER. Yes, sir.

Mr. FULLER. I notice that you denounced the N. R. A. in your statement here.

Mr. CHANDLER. Where did I denounce the N. R. A.?

Mr. FULLER. You took a great deal of pleasure in referring to the Supreme Court's decision on the N. R. A.

Mr. CHANDLER. I took a great deal of satisfaction in the fact that the Supreme Court had decided that Washington cannot go into the State of Ohio and license our people to do business, regulate our wages and our hours.

Mr. FULLER. Were you for the N. R. A.?

Mr. CHANDLER. When it first came out everybody was enthusiastic for our new President, and my organization——

Mr. FULLER. I asked you were you for the N. R. A.?

Mr. CHANDLER. At first, because it was our duty to be loyal to our President in a crisis. The banks were closed. My organization put through the Ohio General Assembly the bill corresponding to the Federal bill, for the State of Ohio. But we are "fed up" on it now.

Mr. FULLER. Do you know that the N. R. A. Act was practically drawn by the National Chamber of Commerce and that it had a great deal to do with its functioning?

Mr. CHANDLER. No, I did not know that.

Mr. FULLER. And now, since the Supreme Court decision, you are denouncing——

Mr. TREADWAY. Nobody else knew that, either.

Mr. VINSON. I think it is fair to state that Mr. Harriman came before the Ways and Means Committee, when the N. R. A. bill was under consideration, and gave it his whole-hearted support.

Mr. CHANDLER. Yes.

Mr. TREADWAY. Will the gentleman yield there?

Mr. VINSON. There is no point in my yielding on that question.

Mr. FULLER. I shall be glad to yield to the gentleman.

Mr. TREADWAY. Mr. Fuller said that the chamber of commerce drew the bill. Now, when Mr. Harriman came before this committee, the bill was in our hands. Mr. Harriman did not draw the bill. He did advocate it but so far as drawing it was concerned, I think the gentleman realizes that he was mistaken.

Mr. FULLER. I should not have used that term. I should have said that he sponsored it.

Mr. TREADWAY. He favored it; yes. So did many of the rest of us and we are mighty sorry that we did.

Mr. CHANDLER. Let us see, Mr. Treadway; was there not an uprising, recently, in the Chamber of Commerce of the United States against Mr. Harriman's philosophy?

Mr. FULLER. I never heard of it.

Mr. CHANDLER. Well, there was.

Mr. FULLER. You ought to be an authority on that. I have learned enough about the credibility of the witness to know just what influence he would have with me.

Mr. CHANDLER. I resent that, Mr. Congressman.

Mr. FULLER. I do not care.

Mr. TREADWAY. You have a right to resent that and you ought to resent it.

Mr. JENKINS. Mr. Chairman, I should like to know what right a member of this committee has to impute dishonesty to a witness?

Mr. FULLER. Nobody has done that.

Mr. JENKINS. And to criticize a witness' testimony in that way? What is the right of a member to do that?

The CHAIRMAN. I do not think there is any such right. The Chair will state that the Chair does not think it is the right and privilege, nor is it in accordance with proper ethics and courtesy, for a person to come here, by courtesy of the committee, and insult us all by saying that we are "rubber stamps."

Mr. FULLER. Not only that, but the witness apparently did not come here to discuss or give us any light or information on this bill.

Mr. TREADWAY. What bill, Mr. Fuller? Is there any bill before us today? There is not a word in print in the way of a bill that we have before us.

The CHAIRMAN. Mr. Fuller, do you yield?

Mr. TREADWAY. It is ridiculous talking about a bill. We may pass a bill next week. But it is not even in print now, so far as anybody knows.

Mr. FULLER. The committee is sitting here for the purpose of considering a tax bill having to do with inheritance taxes, taxes on gifts, and taxes on incomes of corporations. Everybody knows that.

Mr. TREADWAY. What is it all about?

Mr. FULLER. When we get the information, we will draw the bill.

Mr. TREADWAY. You have all the information that you expect to get, from down town.

The CHAIRMAN. Mr. Treadway—

Mr. TREADWAY. Mr. Chairman, I have just as much right to roughneck as any other member of the committee, and I am going to do it.

The CHAIRMAN. We must have some order, gentlemen.

Mr. TREADWAY. We have not had any order in the committee this morning.

The CHAIRMAN. Who is to blame for that?

Mr. TREADWAY. The Democratic members. They have insulted the witness.

The CHAIRMAN. Mr. Treadway, I think this is all out of place.

Mr. TREADWAY. So do I.

The CHAIRMAN. The first insult was passed by the witness. There is no question about that. It was a gross insult but the Chair paid no attention to it at the time.

Mr. TREADWAY. The insults came from inquiries of committee members of the witness.

The CHAIRMAN. The witness deliberately made the statement that the committee were "rubber stamps."

Mr. TREADWAY. Well, that is the truth. Good Lord! He is telling the truth in his testimony.

The CHAIRMAN. Well, that is your statement.

Mr. TREADWAY. Well, it is the truth.

Mr. FULLER. That is not so.

Mr. TREADWAY. That is what the press says every day.

Mr. FULLER. Well, the press does not always tell the truth.

The CHAIRMAN. We want to proceed and close these hearings—

Mr. TREADWAY. Let us close them. What earthly good are they?

Mr. HILL. Mr. Chairman, I move that we proceed in order.

Mr. TREADWAY. And I second the motion; and that means that certain members of the committee do not ask questions such as they have asked of this witness.

The CHAIRMAN. We cannot proceed in order unless members of the committee are in order.

Mr. TREADWAY. That is what I would advocate, Mr. Chairman, that the committee be in order.

The CHAIRMAN. Many times we advocate rules that we do not follow ourselves.

Mr. TREADWAY. That is the reason we get out of order.

Mr. COOPER. The gentleman is the only one who has been out of order.

Mr. TREADWAY. I know who has been out of order.

Mr. VINSON. I believe the heat has been affecting our friend, the gentleman from Massachusetts.

Mr. TREADWAY. I can make insulting remarks just as fast as any other man here or I can try to be a gentleman, if others will.

Mr. VINSON. You are the best hand at it that I know.

Mr. FULLER. Mr. Chairman, I should like to conclude my remarks. I was not trying to insult the gentleman. I do not think that I did.

Mr. CHANDLER. You made one remark which I do not like. May I call your attention to one remark that you made? You said that you had seen enough of me to know what credit to give my testimony. I do not think you meant it in the way it sounded.

Mr. FULLER. Yes; I did. I meant it not as a matter of your honesty and sincerity of purpose, but as a matter of your bad judgment. I think it is an example of the poorest judgment that I have ever witnessed here.

You have come here and practically insulted every member of the committee. Of course, we consider the source. Personally, I did not care anything about it. You called us "rubber stamps."

You have demeaned the administration and every measure that has been passed during the administration. You have made a political speech. You have not done what you were supposed to come here to do.

You were supposed to come here and give us some food for thought, to help us arrive at a just conclusion on the kind of measure to report.

I have examined you with no discourtesy intended but for the purpose of showing your feeling in the matter, for the purpose of showing that you have not tried to discuss the merits of the bill, but that you have just made a political stump speech here. You have criticized members of the committee and Congress and the President of the United States. I did not think that was a very fine thing for a prominent representative of a great organization from the great State of Ohio to do.

That is the way I feel about it.

Mr. TREADWAY. Now, Mr. Chairman, of course it is perfectly easy for members of the committee to express views on what a witness says or does.

It is pretty apparent that whenever a witness appears, whoever it is, and is opposed to suggestions that are brought to the committee from the administration, which we are asked to enact, that he is doing something that is absolutely wrong and unfair and improper.

[Of course, it is perfectly all right for members of the committee to question the witness, and ask such questions as have been asked here by the Democratic members this morning. I am not going to add any fuel to the fire, but I would like to ask the witness this one question.

Mr. CHANDLER. Yes, Mr. Congressman.

Mr. TREADWAY. Or a series of questions.

You are an official of the Ohio Chamber of Commerce?

Mr. CHANDLER. Yes, sir; Mr. Congressman.

Mr. TREADWAY. You are authorized to appear here by the chamber of commerce?

Mr. CHANDLER. Yes, sir.

Mr. TREADWAY. By a vote of the chamber or did the president instruct you to come?

Mr. CHANDLER. The president instructed me to come. There had been previous votes of our chamber covering the principles here involved.

Mr. TREADWAY. Then the document that you placed in our hands, to which such violent exception has been taken by the Democratic members, because it is more or less opposed to their views, represents practically the views of the Ohio Chamber of Commerce?

Mr. CHANDLER. Yes; an overwhelming majority of its members.

Mr. TREADWAY. How many members are there?

Mr. CHANDLER. The figures are given in the opening statement.

Mr. TREADWAY. You have 78 local chambers?

Mr. CHANDLER. Yes, sir.

Mr. TREADWAY. Four thousand six hundred and twenty-nine individual corporate and representative members.

Mr. CHANDLER. Yes.

Mr. TREADWAY. Did you submit the statement that you have read here to us, to any board of directors, or others?

Mr. CHANDLER. It was submitted to our president and to the staff in my office.

Mr. TREADWAY. The staff in your office?

Mr. CHANDLER. Many of the features of it. Some of it I wrote in the Mayflower Hotel yesterday.

Mr. TREADWAY. And the president of the Ohio Chamber of Commerce approved the statement that you have presented to us?

Mr. CHANDLER. In principle, yes; not the language.

Mr. TREADWAY. You had no intention of appearing before this committee with a view of making a political stump speech, as it has been designated, had you?

Mr. CHANDLER. I was amazed that my remarks were so interpreted. I thought I had dealt with the fundamental economics underlying this proposal.

Mr. TREADWAY. And these are your views rather than an effort to make any stump speech?

Mr. CHANDLER. Why, of course.

Mr. TREADWAY. You are an official of the chamber of commerce and not supposed to be a partisan politician.

Mr. CHANDLER. Part of our constitution is that we may not be partisan.

Mr. TREADWAY. Then how could you hold your position and come here and make what has been designated as a stump speech?

Mr. CHANDLER. I could not. Nine-tenths of our members are Republican, but even the Republican members——

Mr. TREADWAY. You would jeopardize your job if you made a stump speech here?

Mr. CHANDLER. I will send this speech to our members and they may interpret it for themselves.

Mr. TREADWAY. That is fair enough, and I think it would be a more disinterested opinion than has been expressed here by the Democratic members of this committee this morning.

Mr. CHANDLER. I have no quarrel with them.

Mr. TREADWAY. Have you appeared before committees of Congress previously?

Mr. CHANDLER. Yes. I appeared this session—I did not appear on the Black 30-hour-a-week bill because we thought it was so fantastic that it could not pass. We appeared on the Wagner bill, the labor bill. I have appeared on the social-security bill. We appeared on the holding-company bill, the death-penalty bill.

Mr. TREADWAY. Have you noticed any disposition on the part of Members of Congress, if the views that you expressed did not conform with theirs, to take violent exceptions to your statements?

Mr. CHANDLER. Only in the case of Senator Wheeler, who "rode" me all through my speech.

Mr. TREADWAY. He did what?

Mr. CHANDLER. He rode me all through my speech.

Mr. TREADWAY. Have you been on a ride this morning or just a walk, or what?

Mr. CHANDLER. No; we have gone back to the good old "horse-and-buggy days."

Mr. TREADWAY. I am in disagreement with you there. I think we have had sufficient. That is all.

Mr. VINSON. Mr. Chandler, I had the honor of propounding some inquiries before the storm broke. I should like to ask, was there anything I said to which you could take offense?

Mr. CHANDLER. Absolutely nothing that I recall. The only statement at which I took offense——

Mr. VINSON. I do not know that I want to go into that.

Mr. CHANDLER. (continuing). Was the gentleman's reference to my credibility. I rather did not like that.

Mr. VINSON. You were asked by Mr. Treadway whether the organization which you represent is partisan. You said that it was part of your bylaws that you must not be partisan.

Mr. CHANDLER. It is not partisan and it is not sectarian.

Mr. VINSON. What is your own personal attitude? Are you a partisan?

Mr. CHANDLER. I am a Republican in politics.

Mr. VINSON. And a partisan?

Mr. CHANDLER. Well, I am a pretty good Republican.

Mr. VINSON. You were a good enough Republican, on page 3 of this statement, to say, I will read from the statement:

On the other hand, I haven't the slightest doubt that in the Washington menage, the inner group that surrounds the President and seems to have his ear, there are numerous conspirators who do not want prosperity to return and who do want to see private property in this country so discredited that the doctrines of Karl Marx shall be substituted for those of Washington, Jefferson, Hamilton, Lincoln, Cleveland, Theodore Roosevelt, Wilson, and Coolidge.

You were a good enough Republican to omit the name of your last Republican President, Mr. Hoover, from that galaxy of statesmen?

Mr. CHANDLER. As a living man, yes. I preferred to discuss those who have passed into history.

Mr. VINSON. You were discussing doctrines and policies. I say you were a good enough Republican to know that it was water on the wheel to omit Mr. Hoover from the list.

Mr. CHANDLER. I was not conscious of any desire to affront Mr. Hoover by omitting him. It is usually good taste in discussing historical problems to omit from the discussion persons now living.

Mr. McCORMACK. Will the gentleman yield to me?

Mr. VINSON. I yield.

Mr. McCORMACK. Does that apply to President Roosevelt?

Mr. CHANDLER. Oh, President Roosevelt is now the President, and is holding office.

Mr. McCORMACK. Does your statement apply to President Roosevelt, too?

Mr. CHANDLER. He is the responsible head——

Mr. McCORMACK. Yes or no; does it apply to President Roosevelt?

Mr. CHANDLER. Does what apply? Let me understand this.

Mr. McCORMACK. Good taste not to talk about living persons.

Mr. CHANDLER. The President is not a historical person——

Mr. McCORMACK. No, do not give us an argument.

Mr. CHANDLER. Wait a moment; you are not going to hold me to a "yes or no" on that. That is not fair.

Mr. McCORMACK. You can answer the question.

Mr. CHANDLER. President Roosevelt has not yet become a historical character. He is still in office. Herbert Hoover is a historical character. He is out of office, but still living.

Mr. McCORMACK. But you made the statement that it is not good taste to talk about living persons. That was the statement that you made, and I simply wanted to get clear exactly what you meant by that.

Mr. VINSON. As a matter of fact, you left out a distinguished Ohioan who is dead, President Harding.

Mr. CHANDLER. I could not have named all the Presidents of this country.

Mr. VINSON. I thought maybe there was some significance in the omission.

Mr. CHANDLER. I did not intend it.

Mr. VINSON. The gentleman referred in his testimony to the English income-tax rates in the upper brackets.

Mr. CHANDLER. Those were the income-tax rates in the upper brackets, and they are higher in this country than in England.

Mr. VINSON. We want to keep the record straight. The gentleman is correct, if he gets to the point of \$10,000,000.

Mr. CHANDLER. Yes; I did not know how high they were.

Mr. VINSON. Up to the \$5,000,000 bracket, in every bracket, the English rate is higher than ours.

Mr. CHANDLER. Quite a little higher.

Mr. VINSON. When you get to the \$10,000,000 bracket, \$10,000,000 of net income, the yield in this country is at a rate of 62.4 percent.

Mr. CHANDLER. Yes.

Mr. VINSON. And in England it is 63.5.

Mr. CHANDLER. Yes; I knew there was a difference.

Mr. VINSON. But the rates in the lower brackets in England are very much higher, the gentleman will agree with me?

Mr. CHANDLER. I quite agree with you.

Mr. VINSON. Very much higher than our rates.

Mr. CHANDLER. I quite agree with you.

Mr. LAMNECK. I should like to ask a question, Mr. Chairman.

The CHAIRMAN. Mr. Lamneck.

Mr. CHANDLER. He is my Congressman.

Mr. LAMNECK. I am going to ask you a few questions that are going to be asked for information and nothing else.

Mr. CHANDLER. I know that, Mr. Congressman.

Mr. LAMNECK. You have said in your testimony that you are not in favor of a tax bill at this session.

Mr. CHANDLER. No; not now.

Mr. LAMNECK. Why are you not in favor of a tax bill?

Mr. CHANDLER. Because there has not yet been established a coordinated system of a balanced budget, and for that reason we do not believe new taxes should be now levied.

Mr. LAMNECK. If there were a tax bill passed, do you think that we ought to go into the tax question sufficiently to outline a tax program that would be sufficient not only to carry the ordinary expenses of government, but also those extraordinary expenses; or should it just be piecemeal, as it has been? There is no question about that. I think it is an acknowledged fact that this bill will not raise sufficient in the immediate future to make any dent in our extraordinary expenditures.

Mr. CHANDLER. I think, Mr. Congressman, it should be the subject of very thorough study and a more protracted study, so that if we are going to enter upon a long-time tax program it would be the result of a great deal of research, looking to a corresponding reduction of expenditures.

Mr. LAMNECK. Do you think a sufficient time could be given to the subject at this session, to enable us to pass a bill?

Mr. CHANDLER. It is preposterous to expect to do it in that length of time.

Mr. LAMNECK. We are spending a lot of money from the Federal Treasury for relief purposes. I want to ask you whether, in your opinion, you feel that Ohio as a State could handle her relief problem and carry the load better than it is being done now by the Federal Government.

Mr. CHANDLER. I am glad you brought that up because I discussed that with Senator Wheeler. He threw in my face, when I discussed State rights, the fact of Ohio getting money from the Federal Government. There is no use crying over spilt milk, or talking about what is water, which has gone under the bridge. But I thoroughly believe that the greatest mistake that this country made was when the Federal Government undertook relief, instead of imposing the obligation on those on whom it should rest, the States and the municipalities.

In the first place we have got to pay it, anyway, in the end, whether the Federal Government expends the money or not. In the next place you have destroyed the morale of these local taxing units. They are all "passing the buck" to the Nation. All of the local taxing districts are also passing the buck to the States.

You destroy that vital principle of local self-government, of local responsibility, which is dear to our Anglo-Saxon institutions.

Mr. LAMNECK. The Federal Government has embarked upon a program—and it is growing by leaps and bounds in my opinion—of making State-aid allotments for all sorts of purposes; for instance, highways and a lot of other things. What is the opinion of your chamber of commerce as to that policy of the Federal Government?

Mr. CHANDLER. We think that is a mistaken policy. It is a system of coercing the States through the making of Federal appropriations, to accept which they must pass certain legislation.

I protested against it before the Senate committee, and I am very glad that this Congress, when they pass the Security Act, will leave to the States freedom as to the kind of unemployment-insurance bill that they shall pass.

But this general principle of 50-50 legislation, with which you and I are familiar, is bad. It encroaches upon the States. It breeds wastefulness. I think it is unsound.

Mr. LAMNECK. That is all.

Mr. DINGELL. Mr. Chandler, you made reference a moment ago to the fact that the Federal Government made a big mistake in taking over relief.

Mr. CHANDLER. I think it was a very grave mistake.

Mr. DINGELL. Perhaps you are right, but maybe you are not. Do you recall when the States and municipalities—and I do not think Ohio was an exception—came here, even during Hoover's time, and everybody was of the opinion that the States could not proceed with relief. They said they were exhausted; that it was a problem of such tremendous proportions as demanded action on the part of the Federal Government; that made it necessary for the Federal Government to take it over.

Mr. CHANDLER. I do not think Ohio ever said that, but I know that that is what happened, and that is the vicious system that is now in operation. They are passing the buck to the Federal Government. The trouble is that under the system of relief from the Federal Government it costs about a third more than it would cost or should cost under local administration because about a third of those who are on relief rolls are fakers.

Mr. DINGELL. What do you think should have been done, Mr. Chandler, at this time, when people were starving to death? Do you think we should have let them starve because the States said that they were not able to take care of them, or do you think that we should have taken care of the situation with machine guns?

Mr. CHANDLER. Oh!

Mr. DINGELL. It was a serious matter. It was a question of one or the other. In other words, it was a question of bread or bullets. Which would you have given them?

Mr. CHANDLER. It was not a question of either bread or "bullets"—

Mr. DINGELL. You would have had to mow them down and it would have cost ten times as much to do that as it would cost to feed them. The people were entitled to the bread which was produced and these people were not fakers as you said.

Mr. CHANDLER. "Bread or bullets"—I cannot understand that alternative.

Mr. DINGELL. That is what it summed up to at the time.

Mr. CHANDLER. I disagree with you.

Mr. DINGELL. We had bread lines and bread marches in the city of Detroit, in the State of Michigan, and that State was certainly not an exception. It was true all over the country. We were right on the verge of a revolution when we had the President of the United States come to the city of Detroit and I witnessed one of the most unfortunate and tragic scenes that I ever expect to witness; when 300,000 people stood in line and thousands and thousands of those people booed the President of the United States. It showed the temper of the people.

If we were not then on the verge of a revolution then I do not know what country ever was.

Mr. CHANDLER. When was that?

Mr. DINGELL. This was in the fall of 1932.

Mr. CHANDLER. During the campaign?

Mr. DINGELL. About 10 days before the election.

Mr. CHANDLER. Yes; I thought so.

Mr. DINGELL. But understand, that was in the Republican State of Michigan, a State that has been traditionally and blindly Republican for nearly half a century. They were not partisans who were booing the President, but they reflected the sentiment of the people. These people were starved. They had wrinkles in their tummies. Their wives and babies were starving. They wanted relief. We could not give it to them. The city of Detroit and the State of Michigan did not give it to them. The State was in the hands of the Republican Party at that time.

Mr. CHANDLER. You had a Democratic governor then, did you not?

Mr. DINGELL. No; we did not. At that time we had a Republican governor. We had Mr. Brucker, who absolutely refused to do a thing

for the people of Michigan. He came to confer at Washington while Hoover was President. On returning, he said relief was not a problem for the States; that the States were exhausted.

Mr. CHANDLER. Well, he ought to be ashamed of himself.

Mr. DINGELL. They had conferences at the Capitol here. They tried to convince the Federal Government that it was their problem, that it was a problem of such grave national proportions that only the Federal Government was capable of taking care of it.

Mr. CHANDLER. I repeat that he ought to be ashamed of himself.

Mr. DINGELL. Then after the Federal Government responds, the Federal Government is criticized. It is manifestly clear that regardless of whether the State takes care of them or whether the Federal Government takes care of them, the taxpayer has to take care of the bill.

Mr. CHANDLER. Yes.

Mr. DINGELL. There is not any question about that. You and I can agree on that. But when the States say that they cannot or they will not, for whatever cause or reason, that is not an excuse to permit the people to starve. And when you do permit them to starve, there is only one thing that you face. If you do not give them bread, you have got to give them bullets.

We had parades in the city of Detroit. We had so-called "radicals"—they were not radicals, but just people who could not think straight any longer because they were starving. They were meeting on the city hall steps and we did not dare tell them to get off the city hall steps. They were meeting there every noonday. They were meeting in Grand Circus Park every day.

We had a march of probably 10,000 people on the Ford Motor Co. In the city of Hamtramck there was a parade nearly every day, of our so-called "radicals." Who were they? They were people who were simply starving to death and who did not want to go along any further peacefully.

That was the situation, not only in Detroit, but it was the same in Pennsylvania, and you had the same sort of a problem in the State of Ohio.

Mr. CHANDLER. Where in Ohio? I never heard of it.

Mr. DINGELL. Then you were not listening. You closed your eyes. You did not see. You probably were secure in your own position and did not care to see or to hear.

Mr. CHANDLER. Oh, no; that is not so.

Mr. DINGELL. You had the same sort of condition in New York, Mr. Crowther.

Mr. CHANDLER. Nevertheless, I simply say that if the State of Michigan—

Mr. DINGELL. Let us exclude the State of Michigan. This was a universal condition.

Mr. CHANDLER. If you had placed the responsibility on the States, they would have financed it.

Mr. DINGELL. You had your relief problem in Ohio. Why didn't you solve it?

Mr. CHANDLER. But they found that they could pass the buck, so they did.

Mr. DINGELL. Perhaps you think it better to permit these people to starve.

Mr. CHANDLER. But nobody ever went hungry or unclothed in Ohio.

Mr. BROOKS. You say nobody ever went hungry in Ohio?

Mr. CHANDLER. I will qualify that statement. Even in normal times, there is always somebody who is hungry or unclothed—even in prosperous times. But I mean, during all this depression, Ohio took care of its poor and its unemployed before the Federal Government took hold.

Mr. BROOKS. And you did not need any Federal relief money, all of this extra money that you have asked for is absolutely unnecessary?

Mr. CHANDLER. Of course, when all the country, when all the States are getting theirs out of the Federal funds, Ohio is going to ask its share.

Mr. BROOKS. But it does not get its share, as you say, unless it is necessary. The Federal Government has not given out a cent to any State unless it is necessary.

Mr. CHANDLER. Well, we will let that go. I am not going to argue that.

Mr. BROOKS. The situation is examined closely by officials of the Government, and not one cent is given out to any State unless it is necessary.

Mr. DINGELL. You understand, the Federal Government is just as anxious to get out of this relief business as anyone else. Just as soon as the States will show a disposition to allow the Federal Government to get out of it, it will. I am just as anxious, and I know members of the committee are just as anxious as you are, to have this burden placed upon the States and upon the various communities where it rightfully belongs. That is the President's idea. But whenever you get down to the point where it is a question of people starving or people freezing, of women and children, babies starving, that is no time to be quibbling about who is going to pay the bill, because you know that it is going to be the taxpayer.

And if the States will not do it, the Federal Government has got to do it, because somebody is going to have to do it, and the Federal Government would not shirk its responsibility under President Roosevelt as it has done under President Hoover.

Mr. WOODRUFF. So far as I recall—and I have lived in the State of Michigan for a great many years—our people have not been permitted to starve to death, either during this depression or any other depression.

Mr. DINGELL. Will the gentleman yield?

Mr. WOODRUFF. Yes; I will yield.

Mr. DINGELL. How much relief did the State of Michigan extend to our needy under Bruckers' administration?

Mr. WOODRUFF. Sufficient to keep them alive.

Mr. DINGELL. How much did they contribute for that purpose in the city of Detroit and in the county of Wayne?

Mr. WOODRUFF. If there is any one community in the State of Michigan that is fully capable of looking after its own, that city is the city of Detroit.

Mr. DINGELL. It was one of the hardest hit of any city in the country.

Mr. WOODRUFF. In connection with feeding the poor, it seems to me we are going far afield, and I have been surprised that this testimony has been permitted to go the length that it has.

But while we are on the subject, I want to call the attention of our friends to the fact that the first and only Federal administration that has contributed anything to feeding and clothing the poor was not the present Democratic administration. I want to remark here that under Mr. Hoover's administration we began to feed the poor in the various States of the country, and we did not organize a political machine in every voting precinct to do the work. Every dollar, every bit of relief that was provided by the Congress of the United States under a Republican administration was distributed by the Red Cross.

Mr. VINSON. Clothing?

Mr. WOODRUFF. Yes.

Mr. DINGELL. The gentleman is mistaken about the Red Cross distributing food.

Mr. WOODRUFF. No; I am not. I beg your pardon. We started relief under Hoover. That was the first relief bill passed.

Mr. VINSON. They appointed an administrator in Kentucky, but the administrator was not appointed until they agreed upon an assistant administrator satisfactory to the powers that be. He was named, and then you had your local set-ups under that similar to those you have now.

Mr. WOODRUFF. Let me say to the gentleman from Kentucky if he will examine the records he will find that food was distributed to the poor people of every community by representatives of the Red Cross and not by representatives of any political party.

Mr. VINSON. The gentleman is correct, but he does not go far enough. That was under a lump sum appropriation, and food and clothing were distributed by the Red Cross and by the relief organizations under an act of Congress, and it was handled through the R. F. C., and Mr. Croxton was in charge of it, and you had the State and local set-ups.

Mr. WOODRUFF. I am making the point that it has been constantly reiterated that under the Republican administration, we never did try to feed the poor of the country.

Mr. VINSON. I never did say that.

Mr. WOODRUFF. No; I am not charging that to you, but it has been done, not only by my colleague from Michigan, but by others, and I want to get that straight for the record, and I want the members of the committee to understand that I believe that any political party, at any time when it is necessary for the Government of the United States to contribute to the welfare of the poor people of this country and keep their bodies and souls together, why, they should do so, regardless of which political party it is, and to assume anything else is ridiculous.

Mr. DINGELL. Just in that connection, the gentleman would not say that our relief administration in the State of Michigan was directed on a political basis?

Mr. WOODRUFF. I would say that it is very largely so.

Mr. DINGELL. How does it come that Mr. Haber, the present relief administrator, a Republican, has been there in charge under a Democratic governor. Mr. Haber is a Republican.

Mr. WOODRUFF. And I think so far as Mr. Haber is able to control matters they are being properly handled.

Mr. DINGELL. Mr. Haber has been in charge of Federal relief in Michigan and he is a Republican so the administration must be O. K.

Mr. WOODRUFF. But if you go down into the local communities you will find an efficient political organization.

Mr. DINGELL. The gentleman in charge of Federal relief in Detroit is a Republican, and most of the State aides are Republicans, because it was placed in the local communities, and at that time very largely the local governments were in the hands of Republicans.

Therefore, it was placed where the community was prepared to take care of the problem, and it took care of it with the local organization, and almost our entire set-up was in the hands of Republicans, and if there is anything wrong, it is not our fault.

Mr. WOODRUFF. If that is true, the people generally have not become aware of the fact.

Mr. JENKINS. Mr. Chandler, representing as you do the Ohio Chamber of Commerce, I wonder if you have means of knowing, as a result of your visits, what is the general sentiment among business men of Ohio, regardless of whether they belong to the chamber of commerce or not, with reference to this proposed taxation?

Mr. CHANDLER. They are very much opposed to it, because they think it is untimely and uncalled for.

Mr. JENKINS. Of course, as a general thing, everybody who has to pay taxes is opposed to doing it. But let us divorce that from this proposition.

I am trying to find out what you have found the sentiment to be. You have had the opportunity of knowing what the sentiment among the taxpayers of the State of Ohio is, probably better than anybody else in Ohio.

I want you to state to the committee what is your judgment, regardless of politics, as to what are the opinions, desires, and beliefs of the business people in Ohio at this time in reference to this program that has been proposed.

Mr. CHANDLER. They are, so far as I can see, against the announced purposes of the tax rather than the tax base—that is, the announced purposes for the sharing of wealth.

Mr. JENKINS. Have you found in Ohio that the people have come to the place where they think that the most important and necessary thing is for the Government to cut down expenses?

Mr. CHANDLER. Absolutely; you hear that all the time and wherever you go.

Mr. JENKINS. Do you not think it would be a better program if the business people and the administration would cooperate and get together and try to provide some plan whereby production and industry can be put back on their feet and leave the taxation program until later?

Mr. CHANDLER. Absolutely.

Mr. THOMPSON. I would like to ask the gentleman, the witness, if he or the association he represents regarded the House of Representatives as rubber stamps when they overrode the President's veto, after he personally delivered his message on the payment of the adjusted-service certificates.

Mr. CHANDLER. No; I do not think you were rubber stamps at that time. But you have been referred to repeatedly in the past as rubber stamps, because you have, instead of initiating legislation, allowed it to be handed down to you by superior edict, and you have taken it and passed it, and we did not think that was right. We have too much respect for Congress.

Mr. THOMPSON. That designation was given principally by newspapers with Republican leanings?

Mr. CHANDLER. I do not think so.

Mr. LEWIS. If you were a citizen of Great Britain, with a responsible government, I think you will admit, as the world can show, and you found the members of the Commons voting to support bills prepared and sent into the House of Commons by the Prime Minister of Great Britain, would you, as a British citizen, think of calling such members of Parliament mere rubber stamps?

Mr. CHANDLER. Not at all, because the Prime Minister under the British Government is the creature of Parliament.

Mr. LEWIS. The President here is the creature of the people.

Mr. CHANDLER. Oh, no; he was elected as President.

Mr. LEWIS. Is not it your belief that on grave occasions, under unexampled necessities, such as those of today, the President ought to be our prime minister?

Mr. CHANDLER. He always has been in great crises, but not where you have an administration which makes a continuous practice of it, and takes to itself the functions of the Legislative Department.

The CHAIRMAN. You will admit, I think, that the President has the constitutional authority, and perhaps the duty, to transmit to Congress recommendations concerning the state of the Nation, including such recommendations as will promote the national welfare of the people?

Mr. CHANDLER. Oh, yes.

The CHAIRMAN. That is all he has done in this instance. He has not sent a bill to Congress. The criticism has been frequently thrown into our faces that we have no bill.

The purpose of these hearings is to get information as a basis on which to prepare a bill.

All that the President has done has been to transmit recommendations; he has not submitted a bill.

Mr. CHANDLER. I do not think any President in the history of this country has ever sent down a list of legislative measures, and hung a "must" tag on certain of them.

The CHAIRMAN. I do not like to disclose what happened in conversation with the President, but within 1 week I attended a conference at the White House when there were present quite a number of members of the majority party. At that time the President made it very emphatic that he has never labeled any measure as a "must" measure; that he has never sent such a recommendation to the chairman of any committee, and he certainly never sent any measure to me with a recommendation that it must be enacted. That is altogether a misrepresentation and a gross injustice to the President of the United States. He made it very positive that the word "must" has not been used by him.

Mr. CHANDLER. All I know is what I read in the papers.

The CHAIRMAN. That is the trouble. Of course, the press is partisan, a lot of the papers are Democratic and a lot of them are Republican.

But we, as Members of Congress, in the exercise of our prerogatives and our functions, ought to have something more substantial on which to base our action than something that is floating around in the press, oftentimes printed for partisan purposes.

And I have great respect for the press. But just because the press has referred to Congress as a rubber stamp, and the President is credited with having said that these measures are "must" measures, that is not sufficient reason for us to get up in the discharge of our public duties and responsibilities and impugn the motives of the President, unless we have a very much more substantial foundation for it than that.

Mr. CHANDLER. I have always found the press almost uncanny in their accuracy of diagnosis, and I have found that they are usually right.

The CHAIRMAN. That is your opinion.

Mr. REED. You have probably read the letter transmitted by the President to Mr. Hill, a member of this committee, with reference to the coal bill, have you not?

Mr. CHANDLER. I saw a reference to it in the paper where the President said that, even if it was a little unconstitutional, Congress had better pass it. Yes; I remember that.

Mr. HILL. The President did not say that.

Mr. CHANDLER. If I remember correctly, he said that it had better be passed even if it was not unreasonably unconstitutional.

Mr. VINSON. He never said that either. The gentleman ought to be as careful in his statements as he wants the gentlemen on the committee to be careful.

Mr. CHANDLER. There was some such statement, as I recall.

Mr. VINSON. He made a statement in reference to the matter and the gentleman knows about it.

Mr. CHANDLER. I read it.

Mr. REED. I would like to have the letter written by the President to Mr. Hill inserted in the proceedings of the hearing at this point.

The CHAIRMAN. Without objection, it will be inserted in the record. (There was no objection.)

(The letter above referred to reads as follows:)

THE WHITE HOUSE,
Washington, July 5, 1935.

HON. SAMUEL B. HILL,
House of Representatives, Washington, D. C.

MY DEAR MR. HILL: Your subcommittee of the Ways and Means has pending before it H. R. 8479, a bill to stabilize the bituminous coal-mining industry and promote its interstate commerce, etc., and I understand that questions of the constitutionality of some of its provisions have arisen in the subcommittee.

This industry, from the standpoint of the operators and the miners, has had many years of difficulty. The product is a great natural resource entitled to the consideration of the Congress both as to the conditions under which it is produced and distributed and as to measures which may be taken for its conservation. The deposits are limited to a few States, the consumption is Nation-wide. Competition and overexpansion have brought destructive price reductions, which have inevitably reacted upon labor standards with a resulting dislocation, restriction, and obstruction of interstate commerce and a recurring danger of industrial

strife. Circumstances such as these present the strongest possible illustration of how conditions of production directly affect commerce among the States.

Admitting that mining coal, considered separately and apart from its distribution in the flow of interstate commerce, is an intrastate transaction, the constitutionality of the provisions based on the commerce clause of the Constitution depends upon the final conclusion as to whether production conditions directly affect, promote, or obstruct interstate commerce in the commodity.

Manifestly, no one is in a position to give assurance that the proposed act will withstand constitutional tests, for the simple fact that you can get not 10 but 1,000 different legal opinions on the subject. But the situation is so urgent and the benefits of the legislation so evident that all doubts should be resolved in favor of the bill, leaving to the courts, in an orderly fashion, the ultimate question of constitutionality. A decision by the Supreme Court relative to this measure would be helpful as indicating with increasing clarity, the constitutional limits within which this Government must operate. The proposed bill has been carefully drafted by employers and employees working cooperatively. An opportunity should be given to the industry to attempt to work out some of its major problems. I hope your committee will not permit doubts as to constitutionality, however reasonable, to block the suggested legislation.

Very sincerely yours,

FRANKLIN D. ROOSEVELT.

EXCERPT FROM MESSAGE OF PRESIDENT TAFT VETOING WEBB-KENYON BILL, AS REQUESTED BY MR. REED

But it is said that this is a question with which the Executive or Members of Congress should not burden themselves to consider or decide. It is said that it should be left to the Supreme Court to say whether this proposed act violates the Constitution. I dissent utterly from this proposition. * * *

The oath that the Chief Executive takes, and which each Member of Congress takes, does not bind him any less sacredly to observe the Constitution than the oaths which Justices of the Supreme Court take. It is questionable whether the doubtful constitutionality of a bill ought not to furnish a greater reason for voting against the bill, or vetoing it, than for the Court to hold it invalid.

The Court will only declare a law invalid where its unconstitutionality is clear, while the lawmaker may very well hesitate to vote for a bill of doubtful constitutionality because of the wisdom of keeping clearly within the fundamental law.

The custom of legislators, and executives having any legislative function, to remit to the courts entire and ultimate responsibility as to the constitutionality of the measures which they take part in passing is an abuse which tends to put the Court constantly in opposition to the legislature and executive, and, indeed, to the popular supporters of unconstitutional laws.

If, however, the legislators and the executive had attempted to do their duty, this burden of popular disapproval would have been lifted from the courts, or at least considerably lessened (63d Cong., 1st sess., S. Doc. 103, vol. 49, pt. 5, p. 4291, Congressional Record).

Mr. McCORMACK. Mr. Chandler, what are your views on the inheritance tax?

Mr. CHANDLER. That is a pretty broad question—what are my views on the inheritance tax? Do I believe it is a justifiable tax? Yes. Do I believe it should be excessive? No.

Mr. McCORMACK. Do you favor the imposition of a reasonable and proper inheritance tax for the Federal Government?

Mr. CHANDLER. Reasonable and proper, yes.

Mr. McCORMACK. Of course, any tax which is unreasonable, you would not favor, but you would favor, would you not, any principle which in fact, would not mean diminishing returns, but any reasonable, proper tax imposed by the Federal Government you would favor?

Mr. CHANDLER. I believe that it is justifiable under the present emergency. I say there should be a delimitation of tax between the

States and the Nation, and the States should take a certain part of the tax and the Nation the other. Just where the inheritance tax should fall, I do not know. But there should not be any duplication.

Mr. McCORMACK. We have an estate tax of 20 percent where there is 80 percent returned to the State.

Mr. CHANDLER. Yes.

Mr. McCORMACK. Then you have the other estate tax where there is no refund to the State. The Federal Government has no inheritance tax, as such.

What would be your reaction to a reasonable and proper inheritance tax imposed by the Federal Government, having regard for the taxes imposed by the State?

Mr. CHANDLER. When the proper time comes to amortize the national debt and balance the Budget, quite likely that would be proper, but at the present time, no.

Mr. McCORMACK. Have you any views as to whether or not such a tax should be lower for a widow and children than for the degrees of consanguinity further removed, for persons receiving a legacy, where there is no blood relationship?

Mr. CHANDLER. That is too technical.

Mr. McCORMACK. Do you believe that a widow who has an inheritance should pay as high inheritance tax as a stranger who might receive a legacy?

Mr. CHANDLER. It does not seem equitable on the surface, but we are getting into a technical field now.

Mr. McCORMACK. In other words, what would be your reaction to a reasonable provision in the higher brackets of an inheritance tax for persons receiving a legacy, but in no way related to the legator?

Mr. CHANDLER. I would not care to express an opinion on that now; I would want to think it out.

Mr. McCORMACK. Would it not be fairer to impose a tax in the lower brackets on blood relation rather on those where there is no relationship?

Mr. CHANDLER. It looks so, on the surface.

Mr. REED. Mr. Chairman, I ask unanimous consent to insert in the record, following the President's letter to Mr. Hill a statement made by former President Taft in vetoing the Webb-Kenyon bill.

The CHAIRMAN. Without objection, it is so ordered.

(The statement referred to will be found following the letter referred to.)

The CHAIRMAN. We will be obliged to limit witnesses from this time on to 10 minutes. It is not the chairman's prerogative to limit the members of the committee, but I do express the hope that we can make better progress this afternoon and leave out a discussion of politics to a greater extent that we have this morning.

We are very much obliged to you, Mr. Chandler, for the statement you have given us.

Mr. CHANDLER. I thank you very much for your patience in hearing me.

The CHAIRMAN. The committee will take a recess until 3 o'clock this afternoon.

(Thereupon the committee stood in recess until 3 p. m., this day.)

AFTERNOON SESSION

The committee reconvened at 3 p. m., pursuant to the taking of recess.

Mr. McCORMACK (presiding). The committee will come to order. Without objection the chair will recognize out of order Mr. Robert L. Lund.

**STATEMENT OF ROBERT L. LUND, CHAIRMAN OF THE BOARD,
NATIONAL ASSOCIATION OF MANUFACTURERS**

Mr. LUND. Mr. Chairman and gentlemen, I am executive vice president of the Lambert Pharmaceutical Co. I appear to discuss the tax recommendations under consideration of your committee by direction of the board of directors of the National Association of Manufacturers of the United States, and I am chairman of that board. The association is composed of individuals, firms, and corporations engaged in all forms of manufacture throughout the United States.

Your committee have under consideration the general recommendations of the President of the United States, contained in a special message to Congress, which has been somewhat elaborated by the Secretary of the Treasury who accompanied his discussion with a number of tables representing the various amounts of revenue that could, in his opinion, be produced by the various classes of taxes suggested at varying rates. We, therefore, confront a project rather than a plan. In what I have to say, I am confining myself to the consideration of the policy proposed rather than any detail since we do not have a bill or a budget for analysis.

On behalf of the association, I shall chiefly direct my remarks to the nature and effect of a proposed graduated corporation income tax. In doing so, I shall make two assumptions with which I trust the committee will agree. First, that a tax on a corporation is a tax on its shareholders because they are the owners of its property, pay its operating costs, and must have subtracted from the net income they would otherwise enjoy as their share of any profits, the amount of any tax levied against the net income of the corporation. A corporation with very large capital may have a very great number of small shareholders and, conversely, a small corporation may have large shareholders. But, irrespective of its size, it is the shareholder who pays and pays, and pays the tax levied against the corporation and it is equity for him that should dominate the formulation of a fair plan of corporate taxation.

Secondly, I assume that the committee recognizes that the material progress of every nation depends upon the accumulation and use of its savings, for it is only what is left over and above what is consumed to support the life of the people that provides the surplus funds to improve their surroundings, and provide them not only with the material but the higher things of life. Savings maintain and multiply employment. These savings are both corporate and individual. They provide the funds for research, for expansion of present enterprises, and for new enterprises. It is thus that they furnish employment for the increasing number of workers as population grows and as more efficient machinery and methods release workers for other jobs.

If too much of these savings be taken for nonproductive governmental purposes, less is left to forward and stimulate individual effort and meet the multiplying demand of an advancing civilization.

The United States is now confronted with continuing Treasury deficits, resulting in a steadily rising national debt. During the fiscal year ended June 30, the net Federal Government deficit was \$3,575,000,000 or at the rate of approximately \$300,000,000 monthly. The Federal debt at the end of June was nearly \$29,000,000,000, not including contingent liabilities of \$2,500,000,000 guaranteed under housing and farm loans. During the fiscal year ending June 30, 1936, the Federal debt will be no doubt further increased to perhaps \$33,000,000,000 by the \$4,000,000,000 Public Works program.

In considering new tax policies two fundamentals must be borne in mind: First, that the Federal Government already has trespassed far into the field of State taxation and has so usurped that field that State taxing policies have been seriously disturbed; second, it should be clearly defined whether new taxation by the Federal Government is really designed to balance the Budget or whether it is rather a punitive measure intended to further alter our social structure.

New taxes cannot be intelligently considered until the Budget for the next fiscal year is presented. However, it is certain that no feasible tax schedules will provide enough revenues to balance the Budget if expenditures continue at their peak of recent years. Expenditures are double now our Federal income. Obviously tax revenue cannot be doubled. Present tax rates are already producing larger revenues than the Government received in any year from 1923 to 1928. They were nearly 80 percent larger this year than in 1932; they have produced \$1.76 this year for every \$1 they produced in 1932.

The trouble with the Budget, therefore, is not in the tax rates. The trouble is in Federal expenditures and in the fact that business, the source of all taxes, blocked in many respects by legislated obstacles, is only partially recovered. Improved business at present tax rates may well be sufficient to pay all necessary Government expense.

The alternative to continuing deficits is a balanced Budget. International currency stabilization, it may be pointed out, is practically impossible until we do have a balanced Budget, since leading foreign nations fear that continued Federal deficits would result in extreme inflation, and force this country to abandon any previously agreed on stabilization level.

How, then, can the Federal Budget be balanced? There are three ways:

(1) Increased Federal taxation. With reference to tax increase proposals we must, or at least should, carefully consider whether the taxes are sound in theory and whether if enacted they would restrict business operations and thus retard or prevent recovery. We oppose the recent proposal for a graduated corporation income tax because it does not relate the size of the tax to the rate of profit earned, because it unfairly discriminates against both the large and small investors in large corporations as compared with large and small investors in small companies, and because it penalizes success made possible by investor cooperation, managerial efficiency, and satisfied consumers—it would tend to return us, industrially, past the horse-and-buggy stage to the monkey stage of economic evolution.

With reference to the possibility that the increased taxes might actually prove a boomerang, we commend to the attention of the administration, Congress, and the public, the following statement made in 1919 by President Wilson:

There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation with consequent unemployment and other attendant evils.

We commend equally the statement of President Roosevelt during the 1932 campaign:

Taxes are paid in the sweat of every man's labor because they are a burden on production and can be paid only by production. If excessive, they are reflected in idle factories, tax-sold farms, and ends in hordes of the hungry tramping the streets and seeking jobs in vain.

Congress should carefully consider whether proposed tax measures would encourage extravagant expenditures, produce industrial stagnation, and create unemployment at the very time we should take every possible step for its reduction.

(2) A substantial business revival, with present tax rates, would yield annual national tax revenue of between \$4,500,000,000 and \$5,000,000,000, with normal business—more than enough to meet all ordinary Government expenditures and amortize the debt created during the depression. Such business revival will not come, however, so long as Congress continues to pass palpably unconstitutional legislation, curtails both the opportunity and incentive for private investment in private industry, and proposes new tax burdens.

(3) The final and only sound method by which budget balancing can be accomplished is through reduction in Government expenditures. There has been too much talk of budget balancing by inflation or taxation, and too little discussion of budget balancing by Government economy. It is by no means generally realized that the Budget for ordinary, as distinguished from emergency expenditures, for the present year is greater than for any previous year in the history of the country, and it is to be remembered that President Roosevelt pledged a reduction of 25 percent in ordinary expenditures.

We will have national recovery only when we have substantially increased private employment. We cannot have increased private employment until we have increased private business activity, and we cannot have business activity until business can be sure that it is commercially safe to make present expenditures and future commitments. Such assurance does not exist where there is the possibility of uncertainty as to taxes. The possibility of fundamental changes in our financial and business structure, and doubt as to rigid adherence to sound governmental policies. Absolutely essential to business confidence, and thus to business recovery, and increased employment, is the speedy balancing of the budget by cutting public expenditures to fit reasonable taxes. We favor thus, rigid government economy. We firmly believe that public expenditures can be cut so as to effect a balanced budget. We favor continuance of present Federal taxes until the Budget is definitely balanced.

If new taxes are to be assessed, however, as will of certainty be necessary in the event rigid government economy is not practiced, then such taxes should be designed primarily to raise revenue instead

of to assist schemes for social reorganization. Our Federal budget can be balanced without additional taxes if we can have rigid Government economy and will abandon proposals adding progressively heavier burdens upon industry. Business is ready to go ahead—why not let it do so?

Turning now to the proposed graduated corporation income tax let us see how many would be directly affected by the adoption of such a tax.

In the United States there are, with varying business conditions, from 80,000 to 200,000 corporations operating at a profit in any year. The number of corporations earning a substantial profit, however, is much smaller. But, while comparatively few corporations are concerned, it is a serious error to assume that only a relatively small number of people are affected by a tax on corporations. To do so is to ignore the essential nature of corporations.

A corporation is a group of persons with investments in the same enterprise. A corporation earning a profit is merely the temporary holder of such income on its way to stockholders. In other words, a corporation is not just a legal entity, it is a group of individual stockholders. It is the income earned upon the investments of these stockholders which is directly affected by any change in corporation taxes. To increase the tax on the profit of a corporation is to increase the tax on the income of its individual stockholders and to reduce this income, all without regard to the ability of such stockholder to pay.

I am skipping some data.

Mr. McCORMACK. You may insert anything which you wish.

Mr. LUND. Thank you. I will do that, sir. This data shows that the large corporations, for example, the American Telephone & Telegraph Co., has 675,000 stockholders and that 38 percent of these stockholders own from one to five shares each; that 21 percent own from six to ten shares each; and 21 percent own from 11 to 25 shares each, and only 20 percent of the stockholders own over 25 shares each, and no stockholder owns as much as 1 percent of the stock, the point being that the corporations in this country, those listed on the exchange particularly are owned by a very large number of holders with a small number of shares, and other examples are given.

(The information above referred to is as follows:)

STOCK OWNER DISTRIBUTION

As of January 1, 1935, there were 663 issues of nonrailway common stocks on the New York Stock Exchange with a total market value of \$25,086,000,000. The average value per share was \$23.50. An analysis of holdings of common stock in 31 companies showed average holdings of only 117 shares each. Assuming that holders of common stock in all companies own 117 shares each, then there were on January 1, 1935, a total of over 9,161,000 owners of common stock of nonrailway companies listed on the New York Stock Exchange. In 103 industrial companies alone, from which it has been possible to gather specific figures, there were 3,915,000 registered stockholders of common stock.

On the basis previously assumed the average value of common stock held by the average investor is \$2,749. In addition to the number of stockholders previously listed there are additional millions of holders of preferred stocks, of railway stocks, and of both common and preferred stocks listed on the New York curb exchanges and exchanges in other cities, and with no market listing of any kind.

Berle and Means in their book, the Modern Corporation and Private Property, estimate that in 1928 there were 18,000,000 registered stockholders comprising

perhaps 7,000,000 individuals. These figures illustrate the wide distribution of ownership of common stock, and the millions of individuals who may be affected by proposals such as are now being considered by this committee.

The extent of corporation ownership is further reflected by the following facts:

(1) Of the American Telephone & Telegraph Co.'s 675,000 stockholders 38 percent own 1 to 5 shares each; 21 percent own 6 to 10 shares each; and 21 percent, 11 to 25 shares each. Only 20 percent of the stockholders own over 25 shares each, and no stockholder owns as much 1 percent of the stock.

(2) In the General Motors Corporation with 350,000 stockholders 42.6 percent own 1 to 10 shares each and only 7.8 percent own 101 or more shares (as compared with the 5 percent of the American Telephone & Telegraph stockholders owning 100 or more shares each).

(3) Fifty-six percent of the stockholders in the American Telephone & Telegraph Co. are women and 210,000 are housewives.

(4) There are nearly 1,550,000 stockholders of private operating electric light and power companies. Of these it appears that 10 percent own only 1 share each and 75 percent own 10 shares or less, while two-thirds of all the stockholders are women.

Mr. LUND. These figures demonstrate the wide distribution of the ownership of corporations in the United States, and the wide-spread effect which any increase in corporation income taxes will have. It is especially important to realize that millions of people would be affected by the imposition of graduated income taxes in view of the unsoundness of such proposals when viewed as tax measures.

A corporation which earns \$20,000 would be taxed 10 percent under the schedule that has been suggested and one earning \$1,000,000 would be taxed 17½ percent. That would be a tax of \$2,000 for the former, \$3,500 for the latter, or a difference of \$1,500, or 75 percent. The small concern is owned by a wealthy individual while the equivalent interest in the large corporation is owned by, say, 10 small stockholders. In a vast number of cases this would be true. We thus penalize those least able to pay by assessing against their earnings a 75 percent larger tax.

Continuing the example further, the small corporation earning \$20,000, which I have just assumed, has \$50,000 capital and earns 40 percent. The large corporation has \$50,000,000 capital and earns, that is, at \$1,000,000, 2 percent. In a large number of cases this would be true. The wealthy owner of the small concern, aided let us say by a Government patent monopoly, with 20 times greater rate of earnings, pays at a little more than half the tax rate assessed against the 20 small stockholders of the large corporation, least able to bear the tax.

In large degree, small corporations are owned by a few comparatively wealthy stockholders. Small investors, housewives, widows, that is the kind of people who hold stock in large corporations. We all know that. It is a matter of common knowledge. The proposed schedule would discriminate against them.

Another objection to a graduated tax upon corporate income is that it fails to take into consideration the nature of the capital of the enterprise. A corporation derives its capital for the conduct of its business from three sources: (1) Payments by stockholders, (2) undistributed accumulated earnings of prior years, (3) borrowed capital.

The borrowed capital brings up a special condition:

Let us assume that Corporations A and B each have a capital of \$10,000,000. In the case of Corporation A, the entire amount was paid in by stockholders or was accumulated out of prior earnings and

profits. In the case of Corporation B, \$5,000,000 of its capital, however, is borrowed. Corporation B now receives under the law, and in my opinion is entitled to receive, a deduction of the interest paid upon its debt of \$5,000,000. Assuming that it pays 6 percent, this deduction is \$300,000. Corporation A receives no such deduction whatever, and it is at a disadvantage therefore.

A tax based upon graduated incomes accentuates that existing disadvantage of Corporation A and this seems clearly not in public interest.

Mr. McCORMACK. The time of the gentleman has expired. Can you not extend your remarks in the record, Mr. Lund?

Mr. LUND. All right, Mr. Chairman; I will be glad to do that.

Mr. VINSON. Take the illustration which you gave of \$10,000,000 capital invested, and a corporation with a capitalization of \$10,000,000 with \$5,000,000,000 borrowed. Now, as far as the actual dollars of investment in A and B are concerned, you have got no disadvantage there, have you?

Mr. LUND. No; you have not. The disadvantage lies in the fact that Corporation B, which borrowed one half of its working capital and pays interest on the loan, has the right to deduct, under present law, the interest on the basis of \$300,000.

Mr. VINSON. Of course, you have not got the investment in the capital stock of your smaller corporation.

Mr. LUND. That is right, but the two operating on the same capital, one has the deduction that the other has not.

Mr. VINSON. You have got that whether you have a graduated tax or not.

Mr. LUND. But the graduated tax would accentuate and increase the disadvantage of the company which does furnish its own capital.

Mr. KNUTSON. Mr. Lund, I gathered from your statement that you believe that we should reduce expenditures rather than increase taxes.

Mr. LUND. I do, sir.

Mr. KNUTSON. In other words, then, it is your thought that we should return to the "horse-and-buggy day" when we lived within our means?

Mr. LUND. I would not term it the "horse-and-buggy day."

Mr. KNUTSON. That is the popular phrase. Of course, the real definition for that condition would be to return to sanity.

Mr. LUND. That is right.

Mr. KNUTSON. That is all.

Mr. LUND. I would call that returning to stream-line days.

Mr. KNUTSON. I agree with you. I think we should return to sanity.

Mr. McCORMACK. Any further questions?

Mr. REED. Yes, Mr. Chairman.

Mr. Lund, you referred to some legislative obstacles to recovery. I was wondering just what you meant by that. If it is in your extended remarks, it is all right.

Mr. LUND. It will be in the record.

Mr. REED. Never mind, then. If it is in there, that is all I want.

Mr. LUND. Is there anything else, Mr. Chairman?

Mr. HILL (presiding). Thank you very much.

(The extension of remarks of Mr. Lund is as follows:)

Finally, I find myself unable to determine upon a fair and reasonable basis for any graduation. Under the rates which I understand are under consideration, the dividing line between the "large" and "small" is drawn at corporate net incomes of \$100,000. I know of no principle or theory which shows that the line should be drawn at \$100,000, or at \$500,000, at \$50,000, or at some other point. Graduations of this kind with no sound basis will result in interminable disputes.

The President's message recognizes the necessity for a provision to prevent evasion of the proposed graduated tax. It seems to me that this proposal of itself establishes conclusively the unsoundness of the graduated tax.

The message states that the most effective method of preventing such evasion would be a tax on dividends received by corporations. A tax upon such dividends is generally agreed to be unsound under every principle accepted as applicable to taxation. After all, we should attempt to be practical in this very practical matter of taxation. A corporation is merely a group of individuals. The net income of a corporation is, in effect, the income of the group of individuals owning it. A tax upon corporation dividends received by a corporation therefore means duplicate and possibly even triplicate taxation of the stockholders' income prior to its distribution to him.

I respectfully submit that this proposal for a tax on dividends paid to corporations is an unnecessary and unwise departure from the basic principle underlying the taxation of income. There is no justification for it other than as an unsound protection for an unsound tax. It should be abandoned.

What plan would be practicable? There are two other alternatives—the present uniform rate or a sliding schedule advancing with the rate of earnings. The latter would seem justified by the principle of ability to pay but experience in the administration of the excess profits tax after the war proved such a sliding schedule impossible of administration. Three Secretaries of the Treasury urged its repeal because there was in practice no feasible method of determining investment.

We respectfully urge therefore that the present uniform rate plan be continued

ADVANTAGES OF LARGE INVESTMENTS

Under ordinary circumstances, I would not conceive it to be advisable to discuss our existing economic and industrial order from the point of view of size. Notwithstanding the more or less frequent statements directed in criticism of mere size, I do not now believe it necessary to devote a considerable amount of time to a discussion of the innumerable advantages resulting from large investments. A rather brief enumeration of them will be sufficient, I am sure, to recall to this committee the rather obvious fact that there are many such advantages.

A large investment justifies, and normally will support, better management. It can usually pay salaries which will attract and be commensurate with experienced judgment and ability. It can and usually does devote large amounts to research on which real progress and expansion are based. Its credit is normally more sound and, consequently, the costs of its financing can be kept at a minimum. Its diversification of activities is a protection to its stockholders and the investors in its securities. It offers greater continuity of employment to its officers and employees. Its wages are normally at the highest level commensurate with the value of the service performed. It holds out to its younger employees greater and more varied opportunities for advancement.

More important perhaps are the advantages to the public. Large investments, under the direction of experienced and capable management, with large-scale production should, and frequently do, result in substantial economies and lower prices to the consuming public. The President's message itself recognizes this fact. In addition, products of better quality are made available, frequently at little or no increase in price, and although perhaps the consuming public is unappreciative, substantial enterprises give assurances that an adequate supply of its products will always be available; and, of not the least importance, large investments permit constant improvements in the manufacture, shipment, and distribution of products affecting the public health.

EFFECT OF HIGH TAXES

High taxes obviously lessen the opportunities for profit. Profit commensurate with risk must be visualized before capital is invested. Net income available to the individual is the test. Profits decreased by substantial taxes are no longer attractive. Opportunities for expansion no longer exist. New enterprises no longer attract. Progress in business will cease. Advancement will be impossible.

Business will be at a standstill. I need only point out that the prosperity and progress of this country has been based in large part upon the expansion of existing enterprises and the establishment of new enterprises, each giving new opportunities for employment, each giving new opportunities for income.

Every dollar paid to the Government in the form of taxes is no longer available for income-producing activities. A dollar earned this year and invested will produce income next year, upon which a tax will be paid. Reasonable taxes are, of course, essential. High taxes may at times be necessary. But taxes must always be imposed only after a most careful balancing between the revenue needs of the Government and the effect of the withdrawal of large amounts of money from business enterprises and income-producing activities. Great care should also be taken to prevent the destruction of individual incentive. If an undue proportion of income attributable to extraordinary personal services must be paid to the Government in the form of taxes, the individual's incentive and his willingness to devote his extraordinary capacities will be destroyed.

INDUSTRY'S PRESENT CONTRIBUTIONS

I fear that we may frequently overlook the very substantial contributions toward relief from the consequences of the depression and toward, I trust, permanent recovery which industry has and is making. In the form of taxes, we are paying income taxes, excess-profits taxes, capital-stock taxes, property taxes, franchise taxes, processing taxes, excise taxes, and sales taxes; and we are about to be called upon to pay pay-roll taxes under the proposed new social-security law. Existing tax burdens imposed upon corporations, as shown by the Statistics of Income for 1932, can be briefly presented as follows: The total corporate profits, after paying all taxes including income taxes—that is, the current earnings and profits available for distribution to the individual stockholders—amounted to \$1,867,079,000. The total taxes paid by all corporations were \$2,373,371,000—that is, the total taxes exceeded the amount available to stockholders by 25 percent. Stating the situation somewhat differently: The Federal, State, and local governments imposed and collected from corporations in 1932 approximately \$500,000,000 more than was available for distribution to their stockholders.

But there are many other contributions by industry, in addition to taxes, which in the aggregate equal if not exceed the extraordinary emergency expenditures of the Federal Government. Industry has attempted to maintain, and to the greatest extent possible has maintained, a high level of wages, notwithstanding substantial decreases in its gross income and more substantial decreases in its net income. Industry has maintained throughout the depression, wherever possible, employment of officers and employees. It has paid tremendous amounts in compensation which, viewed solely from the point of view of business activity or net earnings, have not been justified. I have seen estimates to the effect that industry has paid more than \$5,000,000,000 during the last 4 years in excessive compensation of this nature.

Industry has been urged to expend funds for the purchase of new equipment, for additions and betterments, and for maintenance and repairs. And industry has responded far beyond its immediate requirements. I have no basis for estimating the extent of the employment, the amount of wages, and the net incomes resulting from this policy.

Industries which have survived the depression have maintained their pension payments to their retired employees, notwithstanding a heavy drain upon their resources. And industry has attempted to maintain, and to the best of its ability has maintained, its generous contributions to the community which it serves, in the form of hospitals, welfare organizations, and so forth.

I suggest that the actual contributions made by industry for the general welfare not be overlooked when higher taxes are under consideration.

CONCLUSION

In conclusion, I respectfully submit:

- (1) The proposed graduated tax upon corporate incomes is unsound.
- (2) The proposed tax upon dividends received by corporations, as a protection for the graduated tax, is unsound.
- (3) The present burdens imposed upon corporations unduly restrain business activities.
- (4) Business recovery is of paramount importance and will produce more relief than the present Government expenditures and will produce more revenue than the proposed increased rates.

(5) The confidence of business enterprises in future Government policies and activities must be restored, and the barriers to legitimate enterprise imposed or proposed must be removed, if we are to witness a substantial business recovery.

(6) The needs of the Government for further revenue can best be measured after a sound budget of expenditures has been presented and revenue estimates prepared, based upon normal business activity.

Mr. HILL. I will next call on Mr. Noel Sargent. Ten minutes, Mr. Sargent.

STATEMENT OF NOEL SARGENT, SECRETARY AND ECONOMIST OF NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. SARGENT. Mr. Chairman and gentlemen of the committee, I am secretary and economist of the National Association of Manufacturers and I am appearing for that organization and affiliated and cooperating organizations. I speak solely with reference to the graduated corporation income tax proposal. This tax has been estimated by the Secretary of the Treasury to be such that it would raise on the three different schedules he presented somewhere between 67 million dollars and 102 million dollars approximately. It has been said that a graduated-income tax should be levied upon corporations since it would establish in that field a sound tax principle, "graduated taxation" taxation according to ability to pay.

But the fact is that when levied upon corporations a graduated-income tax violates the principle that taxes should be related to ability to pay.

Prof. Harley L. Lutz of Princeton University, former president of the National Tax Association, pointedly said with reference to the pending proposal:

I consider a graduated tax on corporations or other business net income as utterly unsound and unscientific; the proposition is based on total misunderstanding of the principle of ability in taxation.

I shall subsequently demonstrate that the overwhelming body of expert economic opinion is opposed to a graduated corporation income tax. I know of only two recognized experts who favor such a tax, one of these wholly endorsing it as a Federal matter, and the other favoring the principle, but desiring the tax to be very moderate and levied exclusively by the States.

Analysis reveals that a graduated corporation income tax would be discriminatory as between investors with the same relative ability to pay. Let us consider an example.

Henry Robinson invests \$1,000 in a \$500,000,000 corporation, which earns a 5 percent profit or a total of \$25,000,000. Considering now only the first proposed table of corporation income taxes—and many other figures will also relate to this particular schedule—we find that the \$50 earned upon Robinson's \$1,000 investment would be taxed 17½ percent, or \$8.75, before Robinson would be entitled to receive any dividend.

Fred Adams, his neighbor, with the same annual income, invests \$1,000 in a \$100,000 corporation, which also earns 5 percent on its capital investment, but because the total corporation earning in this case is much smaller the \$50 earned on Adams' \$1,000 investment will be taxed only 12 percent, or \$6, before he is entitled to receive a dividend.

Here are two men with equal income, equal investments, and equal earnings on their investments, yet under this proposal the man will be penalized who has invested in the large company.

Not only would such tax be discriminatory as between individuals with the same ability to pay, but it is discriminatory as between individuals with different abilities to pay. Thus Jones, with an income of \$5,000 a year invests \$1,000 in a \$500,000,000 corporation earning 5 percent. The \$50 earned by Jones on his \$1,000 investment would be taxed 17½ percent before he would be entitled to receive a dividend. But Brown, his wealthy neighbor, with a \$50,000 yearly income, invests \$10,000 in a \$100,000 company, which also earns 5 percent on the total investment. Yet the \$500 earned upon Brown's—the wealthy man's—\$10,000 investment would be taxed only 12 percent before he is entitled to receive a dividend, while the profit earnings of \$5,000 by the small investor would be taxed 17½ percent before he is entitled to receive a dividend.

Can there be any further doubt that this tax is discriminatory and that it would specifically violate the principle of ability to pay?

I may say in that connection, Mr. Chairman, that I have a chart here, which, with your permission, I will give to the clerk for inclusion into the record, which demonstrates some of these figures in graphic form.

Mr. HILL. Is that a chart which can go into the record?

Mr. SARGENT. Here it is. [Producing chart.]

Mr. HILL. That is all right. It may be admitted.

(The chart referred to is as follows:)

AN EXAMPLE OF THE EFFECT OF PROPOSED CORPORATION TAXES

HENRY MAGNUS BROWN	JOHN LITTLE JONES
Invests	Invests
\$10,000	\$1,000
In corporation with capital of	In corporation with capital of
\$100,000	\$500,000,000
Which makes a profit of	Which makes profit of
\$10,000, (10 percent)	\$20,000,000 (4 percent)
Earning for each investor	Earning for each investor
\$1,000	\$40
To be taxed	To be taxed
\$120 (12 percent)	\$6.80 (17 percent)
Leaving available for dividends	Leaving available for dividends
\$880	\$32.20
or	or
88 percent of actual earnings	83 percent of actual earnings

TAX COLLECTED ON EACH DOLLAR OF PROFIT EARNED

	Cents
From large investor in small corporation earning 10 percent.....	12
From small investor in large corporation earning 4 percent.....	17

Mr. SARGENT. In the illustration last cited, the man with the far larger income would have a smaller tax levied upon the profits from his investment than the tax levied on the profits earned by the small investor with the small income.

Let us consider another illustration, because when we get down to considering these things by cases, we see how they work, and can demonstrate that the thing is inequitable. One man invests \$1,000,000 in a \$500,000,000 corporation which earns 4 percent, or \$20,000,000 during the year; his neighbor invests \$10,000 in a \$100,000

corporation which earns 10 percent or \$10,000 during the year. Under the rate schedule being considered the 4 percent earned by the first man and his fellow investors in the large corporation would be taxed 17 percent before they are entitled to receive any dividend. But the 10 percent earned on the investments in the second company would be taxed only 12 percent before the investors would be entitled to receive a dividend. This is arbitrary discrimination against the investor in the large corporation as compared with investors of the same amount in the smaller corporations; it violates every principle of equitable taxation.

Dr. H. A. Millis, of the University of Chicago, formerly president of the American Economic Association, declares with reference to the pending proposal:

"Unless the objective is to discourage big business on the corporate basis", and as we have seen an effort to do this would, instead of being only a penalty or burden upon a few, be a direct burden upon millions of stockholders spread throughout the entire United States, "the tax rates," says Dr. Millis, "should vary with the ability of investors not the size of corporate investment. The small income of a very small corporation may mean a large profit upon investment and the large income of a very large corporation may mean inadequate profit."

To put it differently, instead of being a "progressive" tax rate, under which those with greater ability to pay are taxed more, a graduated corporation income tax may actually be "regressive", that is, it might result in a situation under which those with less ability to pay will be taxed more. This has been soundly stated as follows by Prof. E. R. A. Seligman, one of the outstanding tax authorities of the United States, former president of both the American Economic Association and the National Tax Association, Dr. Seligman says on this point:

A progressive corporation tax then does not necessarily mean a progressive tax on the individual shareholders, and still less does it imply a progressive tax on the individual bondholders. It may denote just the reverse. The application of the progressive principle to corporations is therefore of dubious expediency. (American Economic Association publications, vol. 9, 1908, third series).

Prof. C. C. Plehn, of the University of California, and former President of the American Economic Association, one of the leading tax experts of the United States likewise says:

The tax on corporation incomes is usually at a flat rate * * * Progression is wholly out of place here. (Introduction to Public Finance, 1931 edition, p. 249.)

Note also the following statement by Alfred E. Holcomb, former President of the National Tax Association:

A graduated tax on business profits based on mere amount is entirely without justification.

Henry F. Long, commissioner of corporations and taxation for the State of Massachusetts, and president of the National Tax Association, declares:

A corporation while an entity is not comparable to an individual. The large and successful corporation is generally found to have many shareholders with small average holdings, or the small investor is represented in stock held by institutions of savings or insurance companies whose funds for investment come from the small deposits and premium payments of many thrifty persons. If a

graduated corporation income tax was operated it would most injure the small investor as becomes manifest when one considers the holdings of a savings institution, whose return from the investment makes a large or small payment on the capital deposited for saving by the individual depositor in proportion to the amount left after taxes for distribution.

A graduated corporate income tax, gentlemen, would violate the tax canon laid down by Adam Smith and reiterated in the message proposing a graduated corporation income tax to the effect that taxation should be related to ability to pay. It likewise violates the second maxim presented by Adam Smith to the effect that taxation should not be arbitrary in character. From the illustrations previously given we see that it is arbitrary and discriminatory as between individuals with investments in companies of different size, different total investment, different total profits, and different rates of profit upon the total investment. It is a tax which is based upon the mathematical amount of total net earnings of a company with absolutely no consideration of the relationship which the actual amount of such earnings bears to the total investment in the company.

It seems to us, moreover, that a tax which penalizes efficiency is entirely unsound in principle. The proposed tax would mean in certain instances that because a large company had attracted more customers, sold more goods, and earned a larger profit, that the amount of such profit would be taxed at a higher rate than the earnings of a company of the same size, possibly in the same industry, which was not able to attract as many customers, sell as many goods, and make as much profit. Its net income would be taxed at a higher rate than either the small company, which earned an even larger percentage on its capital investment, or the large company, which made relatively little profit upon its investment.

It is economically unsound to place a heavier tax upon a company which demonstrates its ability to secure and retain consumers merely because a sufficient volume of such transactions results in an adequate profit. It might as well be said, from the economic standpoint, that the customer who patronizes the large corporation should be penalized by being charged a special sales tax as compared with those who patronize smaller and less successful corporations.

It is unsound to penalize the man who uses good judgment by investing in a small company, which later becomes successful and makes substantial profits. It is contrary to the American tradition that the efficient and successful should be penalized.

It is important in connection with any tax to consider its incidence—that is, by whom must the tax ultimately be paid. Tax experts have long recognized that some taxes can be shifted from those who pay in the first instance to others. While some taxes may be shifted in part, other taxes cannot be shifted at all. Upon this subject of direct incidence there is perhaps no greater authority in the United States than E. R. A. Seligman, of Columbia University, and I specifically direct your attention to the following statements made by Professor Seligman:

The belief so widely prevalent among business men that income taxes are added to the prices thus turns out to be fallacious, at least so far as surtaxes are concerned. (Academy of Political Science Proceedings, vol. XI, May 1924, no. 1.)

But it can now be shown that the same is true of normal taxes. Despite the widely held belief to the contrary even a proportional income tax cannot be shifted. (Ibid.) Tax on income is a tax on net profits, and net profits are not

cost but the surplus over cost. Business profits are a result of business operations; they are a consequence of prices, not a cause of prices. A tax on business profits is not a part of cost as is a tax on business products. The latter cannot be shifted; the former cannot be shifted. (Ibid.)

It will thus be seen that according to leading tax authorities the burden of the graduated income tax must be borne by the stockholders and cannot be shifted. Although this tax cannot apparently be shifted to consumers in the form of increased prices, there is a way in which consumers may suffer materially from such tax, if it is continued over any long period of time. As net earnings to millions of shareholders become reduced under application of the graduated corporation income tax, such investors will tend to withdraw their investments, or seek other places for the investment, or withdraw their funds completely from the investment market. While thus penalizing the investor in the more successful corporation, quite irrespective of its size, it will become difficult for such corporations to continue their production and sales at the former volume, and will be difficult for other companies to obtain funds for development into very large units.

If, for example, such a graduated corporation income tax policy, as is now proposed, had been in effect for the past 35 years, it can scarcely be doubted that it would have been much more difficult, if not impossible, for companies such as Ford, General Motors, General Electric, and many others to develop as they have. The inevitable result, if these companies had not been able to continue or operate as they have, would be that the public would be deprived in a large measure of the scientific research and technical efficiency developed by these companies.

If such companies had been unable to develop, can it be doubted that our automobiles, refrigerators, vacuum cleaners, and many other articles would probably cost us much more than they do at the present time?

Attempts to penalize "bigness" as such often ignores the fact that the so-called "big" corporation is after all an aggregation of a thousand or a hundred thousand individuals, and that restriction and serious curtailment of such "bigness" would chiefly damage these aggregations of investors and also consumers, who have benefited by the industrial development, and indeed who have made the development possible.

We may note in this connection the following statement made some years ago by Henry Ford, who declared that if surtax rates then existing had been in effect in 1900 he doubted if it would have been possible to sell a car for less than \$1,500.

High taxes on the rich do not take burdens off the poor. They put burdens on the poor. As far as our company is concerned, we can go on about as we now are, whether the surtax be 25 percent or 50 percent. We can make some improvements, but we cannot do the great things we should do had we more money. We cannot make such progress in the next 15 years as we have in the last 15, and all other forward-looking companies will be in exactly the same boat. (Quoted in Andrew D. Mellon's "Taxation: The People's Business," p. 97.)

There can be little doubt that there would be a direct and fairly immediate detrimental result of an imposition of a graduated corporation income tax upon millions of stockholders, and that there would be an indirect detrimental social effect upon millions of consumers resulting from materially increasing prices over a long period of years.

We respectfully direct your attention to the following views in an editorial appearing in the New York American of June 25:

In other words, the Federal Government, by its tax policy, would tend to make the prices and costs of the less efficient producers prevail, thus in effect reducing the purchasing power of the general public.

Under such a set-up in the past, the Ford Motor Co., for example, could not have fulfilled its economic destiny, for it would have been handicapped by taxation intended to slow it up to the less effective pace of Pope Toledo and a variety of other early competitors.

An additional detrimental social effect, which deserves careful consideration by this committee, is thus stated by Dr. Plehn, of the University of California, whom I mentioned before:

A graduated Federal tax upon corporations will * * * be especially burdensome upon widows and retired persons living on invested savings. Since it is the rate of profit, not mere absolute size, that signifies the basis of graduation is absurd.

Unless the rates imposed in a graduated corporation income tax are very high it would seem that there could not be substantial increases in Federal revenue. The graduated corporation income tax, moreover, is a tax upon those with an investment in corporations. It would thus directly affect millions of stockholders throughout the entire United States. The graduated corporation income tax is unsound, as a tax measure violating the doctrines that taxes should be based upon ability to pay, and that they should not be arbitrary.

The proposed tax would be economically unsound, since it would penalize industrial efficiency. The tax is socially unsound because it would, if continued over any long period of time, result in increased living costs to consumers, resulting lowered living standards and decreased employment opportunities for workers. The graduated corporation income tax is a tax upon millions of individual stockholders, quite irrespective of their ability to pay.

Mr. L. H. Parker of the Treasury Department is a distinguished taxation authority.

I direct your attention to the fact that in December 1932 Mr. Parker submitted a report to a subcommittee of the House Ways and Means Committee, in which he declared:

No satisfactory system of applying the graduated rate principle to the net income of corporations has, as yet, been devised. (Report on double taxation printed for the use of the House Ways and Means Committee, 72d Cong., 2d sess., p. 240.)

I further call the attention of the distinguished Representative of Kentucky, who is a member of this committee, Hon. Fred M. Vinson, to the fact that in presenting this report to Chairman J. W. Collier, on December 29, 1932, he said:

It was unnecessary for the Subcommittee on Double Taxation specifically to approve or disapprove of the report as prepared by the staff of the joint committee. However, we are in substantial agreement with the statements contained therein. (Ibid., letter of transmittal.)

Three of the four gentlemen who were members with Mr. Vinson upon this subcommittee are at present members of the House Ways and Means Committee.

I fully agree with the statement made by Mr. Parker, and endorsed in principle by the distinguished subcommittee, that there had not been developed up to the end of 1932 any "satisfactory system of applying the graduated-rate principle to the net income of corporations."

Nor do I believe that any satisfactory system has been devised since then, and, in fact, I believe the principle itself is so basically unsound that no satisfactory system could be devised.

I respectfully direct your attention in conclusion to the following striking statement made to this committee in 1918 by the distinguished Secretary of the Treasury, Hon. William Gibbs McAdoo, now Senator from California. 1918 Tax Hearings, page 15:

Any graduated tax upon corporations is indefensible in theory, for corporations are only aggregations of individuals, and by such a tax the numerous small stockholders of a great corporation may be taxed at a higher rate than the very wealthy large stockholders of a relative small corporation.

We appeal to this committee to emphatically reject the idea of imposing upon millions of stockholders in the corporations of this country a tax which, in the words of the distinguished Secretary, is "indefensible."

Mr. VINSON. If I understand you correctly, that report was presented in December 1932?

Mr. SARGENT. That is correct; yes, sir.

Mr. VINSON. And 4 of the 5 members on the subcommittee have been members of the Ways and Means Committee from that time up until this time?

Mr. SARGENT. I cannot say. They are members at the present time, at any rate.

Mr. VINSON. They are members at the present time.

Of course, they have had much opportunity to make further study.

Mr. SARGENT. I inquired from representatives of this committee, sir, and was told that nothing further was done about that study since it was made.

Mr. VINSON. You were given incorrect information.

Mr. SARGENT. I went to headquarters.

Mr. VINSON. I am chairman of that subcommittee.

Mr. SARGENT. I talked to representatives of the committee.

Mr. COOPER. Who do you think speaks for the committee?

Mr. SARGENT. The members themselves.

Mr. VINSON. I happen to be chairman of the subcommittee; and further study has been made since that time.

Mr. SARGENT. I am glad to hear it.

Mr. VINSON. That is not the question I wanted to develop.

Now, you are against the graduated corporation income tax?

Mr. SARGENT. That is correct, sir.

Mr. VINSON. Assuming that there should be added revenues obtained through taxation, what constructive tax suggestion can you or your organization make with reference to the sources from which we can get that money?

Mr. SARGENT. Mr. Vinson, we had a meeting of our board of directors yesterday, at which consideration was given to this matter, and Mr. Lund and myself were authorized to appear in opposition to the graduated corporation income tax. According to the announcement of the chairman of the committee, as we understand it, at least, as it was quoted in the paper, the approval of the committee was secured to the effect that nothing would be considered by the committee at this time except those particular measures included in the President's tax message; that is, we did not prepare ourselves to come here and suggest a program for the Federal Government to raise money.

MR. VINSON. The gentleman is a national authority, and recognized as being an economist of the first water, who has spent years in the study of taxes and revenues. It might be that he could be helpful to the committee, if they must get away from the graduated corporation tax, if you can suggest something that could take its place, and that would not be burdensome and unreasonable, and that would suit you and the organization which you represent.

MR. SARGENT. I appreciate both your compliment and the invitation to make suggestions, Mr. Vinson, and I assure you that our organization, myself individually, and everyone connected with it, would be desirous of being helpful in every possible respect to the members of this committee, or any committee.

MR. VINSON. Let me say this in fairness to myself and others, that I do not believe anyone can present themselves here, without having had occasion to examine specific proposals which may be under consideration, to suggest a specific program for raising increased revenue.

MR. VINSON. I am not asking you to go that far. I will confine my request just to a single suggestion.

MR. SARGENT. Yes, sir.

MR. VINSON. A tax from any source that will raise a considerable amount, that you care to give us.

MR. SARGENT. Very well, sir. We have suggested, and we have approved the idea, and we do not think it can now be as repugnant as it once was, in view of the fact that 30 States have adopted a sales tax, we have approved the idea of a Federal sales tax.

MR. VINSON. What about the conflicting proposition that we would run into? If 30 States have sales taxes and we are inveighed against and it is said we are invading the State function, then I think that there is a whole lot which can be said as in indictment of the Federal Government invading the State field of taxation, and likewise the indictment against State governments invading the Federal field. But with 30 States having sales taxes, do you still think that the Federal Government should enter into that field?

MR. SARGENT. I still do, and I think it can be done in this way, if I can express a personal opinion, the association not having gone on record on this particular plan. A method by which it could be done, it seemed to me, would be to have one tax levied by the Federal Government, assessed by a local agency, and a certain proportion of the tax redistributed on an equitable basis back to the State. In view of the question of State rights and the lack of uniformity among various State taxes, it would seem that a uniform tax of that character would be much better than the present confusion.

MR. VINSON. How much would be retained by the Federal Government in that kind of system?

MR. SARGENT. That would be a matter for working out exact records in connection with a definite budget proposal such as had been submitted to the Committee.

MR. VINSON. You are familiar with the excess-profits tax?

MR. SARGENT. That is correct; yes, sir.

MR. VINSON. Do you favor personally that sort of tax?

MR. SARGENT. If the gentleman will permit, I would like to say something on the excess-profits tax, if I may, Mr. Chairman.

We had, as you know, developed following the war in Denmark and in some of the other countries what was called "war-profits tax", which spread to about 16 different countries. We then expanded th

war-profits tax which we first had into the excess-profits tax, Mr. Vinson, and that was an outgrowth of it.

Mr. VINSON. And the administrative features were such that they said it was insurmountable?

Mr. SARGENT. I have here the statements of three Democratic Secretaries of the Treasury, recommending the repeal of the act on the ground that it was humanly impossible to enforce—Mr. Houston, Mr. McAdoo, and Mr. Glass.

Mr. VINSON. As I understand it, you do not favor that?

Mr. SARGENT. I am not so opposed to it in principle as to graduated income tax, Mr. Vinson, but I am opposed to it on the ground that apparently the basis of experience shows it cannot be made to work.

Mr. VINSON. The trouble is you do not answer my question. I do not know whether you do not want to or not.

Mr. SARGENT. I say it cannot be worked. I do not know what more I can say.

Mr. VINSON. My question was, before you engaged in a stump speech—and I say it with all respect, because I know what the Secretaries said, that the difficulties were insurmountable—but I asked you what you personally thought of the principle of the excess profits tax?

Mr. SARGENT. If you will let me state this, what I have in mind is that the principle is less objectionable than the graduated corporation income tax. On the other hand, it seems to me it is an extremely difficult, if not impossible matter, to devise a sound basis for determining the rate from which you will operate initially, that is the basis. For example, if you start with a 6-percent rate, or you start with a 5-percent rate, or an 8-percent rate as your basis, then the question comes up comparing the risk of different industries and the return which different industries should be entitled to receive from their capital. Otherwise, there is to that extent some objection in principle.

Mr. VINSON. That is not the objection which was stated during the war, and immediately following.

Mr. SARGENT. You asked me for my objections to it, sir.

Mr. VINSON. The objection stated by the Secretary of the Treasury was with reference to ascertaining what was the capital invested.

Mr. SARGENT. If you will pardon me, Senator McAdoo at least said that he was opposed to the principle of the tax. Mr. Houston did not.

Mr. VINSON. I am asking you if it is not a fact that one of the major objections was in determining a sound basis that could be used in considering how the profits earned were to be taxed under the excess-profits tax?

Mr. SARGENT. That is right.

Mr. VINSON. Now, since the war we have had two efforts at excess-profits tax: Under the N. R. A. and the 1934 Revenue Act. Is that correct?

Mr. SARGENT. Do you refer to the capital-stock tax?

Mr. VINSON. I refer to the capital-stock tax and the excess-profits tax that was in N. R. A., and then that tax died when the President issued his proclamation, showing that the twenty-first amendment was ratified.

Then in the 1934 Revenue Act, which Congress passed, you had under title V, capital-stock and excess-profits taxes. And in each of these acts the corporation made its finding of fact as to the adjusted, declared value of its capital stock.

Mr. SARGENT. That is right.

Mr. VINSON. In the 1934 act the rate is 5 percent of that portion of the income which is in excess of 12½ percent of this adjusted declared value of the common stock. Now, the corporations of the country having had two opportunities to make this adjusted declared value of capital stock, if we were to pass a tax increasing this rate, or change the basis of that, so that it would yield a reasonable sum of money, would that be a burdensome method of taxation?

Mr. SARGENT. You are discussing two entirely different things, sir. You are discussing in the one place the change in the rate on the capital-stock tax, and you asked me a question, secondly, about raising the present flat rate on corporations, if I understand the question correctly.

Mr. VINSON. No; I do not refer to the ordinary corporate tax at all. I am confining my remarks to the excess-profits tax.

Mr. SARGENT. We do not interpret them as being the same in principle or administration as an excess profit tax, such as we had before the war or immediately following it.

Mr. VINSON. It is somewhat akin, is it not?

Mr. SARGENT. Only to a slight extent. The matter of earnings and profit do not enter into it. A company may presumably be taxed under it if it has no earnings at all.

Mr. VINSON. Let us deal with the present law. Do you favor the present law which deals with excess profits tax?

Mr. SARGENT. I do not admit that there is an excess profits tax, Mr. Vinson.

Mr. VINSON. I will hand it to you [handing document to witness].

Mr. SARGENT. I realize that that is mentioned in the title, but I think the title is misleading.

Mr. VINSON. Of course, I am very happy to agree with you, but if we were to enter upon a principle of excess profits tax, for the purpose of securing real money, that we probably would want to get closer to the war-time tax than the present law. The point I wanted to make was, that under the excess-profits tax in the Revenue Act of 1934, and also under the N. I. R. A., corporations were given an opportunity to find out the adjusted, the declared value of their stocks.

Mr. SARGENT. The extent that there is an excess-profits tax at the present time is practically inoperative, as you have indicated, because of administrative features. There are very few corporations that feel it directly although stockholders feel it at the present time. It says the income above 12½ percent. As you realize, there are very few corporations that are making any money so that they come under that at all. I would say, Mr. Vinson, that if that tax would become operative and effective in raising revenue, that then its administrative difficulties would probably arise. They have not arisen so far because there has not been very much problem in connection with them.

Mr. VINSON. Even though there have been two demonstrations on the part of corporations as to this matter?

Mr. SARGENT. That would, of course, make it possible to obviate some of the difficulties which have been in existence before. I do not think that the hundreds of thousands of business enterprises of the country have been affected in such a way that we can say that very many of them have had the material to report with respect to their earnings or governing what their capitalization would be by that system.

Mr. VINSON. If we went into a system of excess-profits tax and raised a reasonable sum of money, what would be your personal attitude toward it?

Mr. SARGENT. My own reaction would be that the Government needs to raise money when it needs it, of course, and we all want to assist it to do that, but a tax which is unsound in principle as well as according to experience being difficult of administration, should certainly be one of the last to be advocated, it seems to me, sir.

Mr. HILL. A tax based on excess profits and graduated according to the profits above a certain percentage of return would be assessed according to the ability to pay, would it not?

Mr. SARGENT. As I say, in that respect, it would be less unsound in principle than the graduated corporation income tax.

Mr. HILL. If we accept the general principle that the excess-profits tax is sound, then your graduated corporation tax would be sound?

Mr. SARGENT. You have this situation, Mr. Hill: Taking perhaps two extreme illustrations, taking the American Telephone & Telegraph Co. and General Motors, or any substantial corporation, and you have an individual with \$10,000, let us say, in securities of one of those companies, and the companies declare dividends of 6 percent. That would amount to \$600 in the year. That individual normally is subject to no income tax whatever, and yet that revenue is taxed with a much higher rate, perhaps, because he has his money invested in a large corporation, as opposed to the man who has his money invested in a much smaller corporation, even under the excess profits tax principle.

Mr. HILL. That is one of the bases of the enhanced rate of return. That corporation has made a greater percentage of profit and the tax is graduated on the basis of the percentage of profit.

Mr. SARGENT. This was not on the basis of a tax on a corporation but a tax upon the earnings of the stockholders.

Mr. HILL. It makes no difference whether it is a 5 percent net profit, 10 percent net profit, or 20 percent net profit.

Mr. SARGENT. Suppose that a particular corporation has paid 20-percent dividends, if you wish, or 10-percent dividends, we will say, which is very substantial, even for a large corporation. That would be \$1,000 which still if that were the whole reliance or income of the particular person involved, a very substantial portion of their income earned upon investment had been taken before they were entitled to any dividend from the corporation.

Mr. HILL. But the excess-profits tax is graduated upon the rate of return to the corporation.

Mr. SARGENT. It is true from the standpoint of the rate of return to the corporation, that that eliminates one of the objections which are raised to the graduated corporation income tax. It does not meet at all the other objection as the effect of a tax upon corporations

as affecting the money earned upon the investment of its own stocks, whether large or small.

Mr. HILL. Well, if it were earned by an individual without the intervention of a corporate agency, he would probably be charged surtaxes on that, and he would have to pay normally a surtax in addition. It seems to me that so far as the administrative features are concerned, that under the statutes, as brought out by Mr. Vinson, those difficulties have been greatly minimized, if not entirely eliminated.

Mr. SARGENT. They have been reduced somewhat; that is true. I do not believe they have been met at all, very substantially, for the great mass of business enterprises.

The CHAIRMAN. Mr. Sargent, I believe you said that you would favor or advocate a general sales tax for the purpose of raising additional revenue.

Mr. SARGENT. That is my personal belief; yes, sir; if additional revenue should be needed. My own opinion is the same as that expressed by Mr. Lund, that every effort should be made to get along with present taxes. I would not advocate a lowering of any present taxes, except as business improved and revenue increased, then certain of the present taxes I think should be changed or altered or repealed. But at the present time, no; I do not think that we should try to repeal any of the present taxes.

The CHAIRMAN. Will you please turn to your manuscript, to the portion which you read a few moments ago, where you referred to the fact that very often expenses incident to corporations are passed on to consumers, and where you referred to what Henry Ford said about automobiles, and please read that again?

Mr. SARGENT. Those were two different aspects.

Mr. VINSON. That part of it which referred to the ability to pay.

The CHAIRMAN. And it being passed on.

Mr. SARGENT. I stated as follows:

It is important in connection with any tax to consider its incidence—that is, by whom tax ultimately must be paid. Tax experts have long recognized that some taxes can be shifted from those who pay in the first instance to others. While some taxes may be shifted in part, other taxes cannot be shifted at all.

Then I quoted Professor Seligman, showing that a tax upon profits is not a kind of tax which can be shifted, whereas a tax upon production or the cost of doing the business itself can be shifted or may be shifted.

The CHAIRMAN. As I understand it, one of your objections to a graduated corporation tax is that it may be shifted and be made an expense to the consumer.

Mr. SARGENT. No, sir; you misunderstood me, I am sorry. As I explained it in the manuscript if you will permit me to say so, the tax itself cannot be shifted, in my opinion and in the opinion of many tax authorities.

On the other hand, as the result of the effect of such a tax, there may be an increased cost to consumers, but not immediately.

The CHAIRMAN. What is the difference in the effect? If a consumer has to pay it, either directly or indirectly, what is the difference, so far as he is concerned?

Mr. SARGENT. From the standpoint of the consumers of the country, if they have to pay increased cost for commodities, there is no difference, Mr. Chairman, that is perfectly correct. On the other hand,

there is a vast difference to the millions of shareholders who are affected by such a tax, because their income is affected, and cannot be obtained, so that they bear the burden as well. In other words, it is a burden which is borne doubly without being shifted from one to the other at all. It is not a case of a company increasing the price and shifting the taxes onto the consumer, so that it still earns the same as before.

The CHAIRMAN. I want to be perfectly fair and understand your point.

Mr. SARGENT. I appreciate that.

The CHAIRMAN. I understand you have objected to this as a hardship and a burden upon the individual stockholders of the corporation.

Mr. SARGENT. Yes, sir; upon the stockholders.

The CHAIRMAN. Then you take the further position that it is a burden upon the consumer buying the commodities of the corporation. I cannot reconcile that with your previous statement.

Mr. SARGENT. Not in the ordinary sense that we speak of taxation.

The CHAIRMAN. I understood you made that point for that reason.

Mr. SARGENT. I was pointing out that the effect upon the investor is very immediate and quick.

The CHAIRMAN. Can he not pass it on?

Mr. SARGENT. He cannot pass it on.

The CHAIRMAN. How would it hurt Henry Ford, or any other manufacturer, if it were passed on, using the example which you cited?

Mr. SARGENT. I quoted Mr. Ford as saying, at least, inferentially—and it is the statement of many others—that if the taxes were in existence, that his company would not have been able to grow to the size it had and would not have obtained the results of managerial efficiency and been able to produce a car to sell for less than \$1,500.

The CHAIRMAN. It certainly would not have prevented his expansion, if he passed the tax on to the customers.

Mr. SARGENT. The idea that any tax can be passed on to the consumers at any time, if carried to its logical conclusion, would mean that an employer can add to his price, at any time, irrespective of whether there is a tax or not, and if that had been so, Mr. Chairman and gentlemen of the committee, there would be few if any business losses during the past years, but if you will examine the figures presented by Mr. Parker in his testimony before the committee, you will find a majority of the businesses had no receipts at all, but net losses, and if they had been able to add that to their costs, at will, that situation would not have existed.

The CHAIRMAN. I think any fair-minded man will admit that if any tax can be passed on directly to the consumer it would be a sales tax. It is not based upon the ability to pay but upon the basis of your needs. There is not any question about that.

Mr. SARGENT. When we speak of shifting taxes, we usually mean that those upon whom the tax is levied can shift it to others, so that their net income remains the same. That is not true with reference to these taxes.

The CHAIRMAN. If that is true, then how are corporations going to be hurt by paying increased corporation taxes? Are you speaking for the corporation or for the individuals scattered throughout the country, the consumers?

Mr. SARGENT. I am speaking in this instance primarily for the shareholders in industrial corporations.

The CHAIRMAN. That is what I thought.

Mr. SARGENT. Yes, sir.

The CHAIRMAN. How will the corporation be hurt if the tax is passed on to the consumers?

Mr. SARGENT. I was trying to say to you that this is not the kind of tax that can be passed on by them to consumers. When we speak of a tax being shifted usually we mean that those to whom the tax is applied can so shift it to others that it has no detrimental effect on them.

In this case, in our opinion—and I think in the opinion of most tax experts of the United States—this particular kind of tax cannot be shifted from the corporation to the consumers and therefore the tax is one which is borne by the investors.

That is an immediate proposition. As a long run, possible effect, not of benefit to these investors at all, there is an increased cost upon consumers resulting from declining efficiency and business enterprise. That has nothing to do with the shifting of the tax from the millions of investors in these corporations. They get no benefit from it at all.

The CHAIRMAN. With all your skill and facility in expressing yourself, I am unable to recognize the soundness of your position or the consistency of it. It looks to me like you are arguing both ways.

Mr. SARGENT. I do not think so, Mr. Chairman. That is, of course, a matter of opinion.

The CHAIRMAN. Perhaps it is due to my inability to comprehend.

Mr. SARGENT. Perhaps it is because of my lack of ability to explain it.

Mr. TREADWAY. What, in your opinion, is the relationship between any of these three suggestions offered to this committee by the President, and the excess profits tax?

Mr. SARGENT. You mean the income tax, the inheritance tax and the graduated corporation income tax?

Mr. TREADWAY. These three suggestions which are supposed to be the limitation regarding a bill.

Mr. SARGENT. I am not prepared, Mr. Treadway, on behalf of those I represent, to speak of anything except the graduated corporation income tax.

Mr. TREADWAY. I am only asking where the relationship comes in. You are a tax expert, one can readily see, and I am not asking you to express any opinion as to the merits, but a good many inquiries have been made here in relation to the excess-profits tax. I would like to know whether or not, in your opinion, an excess-profits tax has any direct connection with any one of these three suggestions which have come to us from the President.

Mr. SARGENT. I am inclined to believe that it has, Mr. Treadway, that it is a modified form of a graduated corporation income tax.

Mr. TREADWAY. Then there is a certain tie-up between what we knew formerly as the excess-profits tax and one of these recommendations?

Mr. SARGENT. I think so, sir. In fact, I gathered that Mr. Vinson did also from his question.

Mr. KNUTSON. Mr. Sargent, how many corporations do you know of that are earning excess profits at the present time?

Mr. SARGENT. You mean over 12½ percent?

Mr. KNUTSON. At the present time.

Mr. SARGENT. I have no idea. I can give you a list of corporations earning \$5,000,000, and corporations earning \$10,000,000, or a list of that sort.

Mr. KNUTSON. I am speaking of percentages.

Mr. SARGENT. I cannot give you a list based on percentages.

Mr. KNUTSON. Do you know of any corporation that is earning in excess of 8 or 10 percent?

Mr. SARGENT. I know of a few; yes, sir.

Mr. KNUTSON. You know of a few?

Mr. SARGENT. Very few.

The CHAIRMAN. If that were the case and there were a tax levied on them, none of them would come within the provisions, so they would not be hurt.

Mr. SARGENT. No; if they did not come within the provisions of the tax, they would not be hurt, of course.

Mr. KNUTSON. You understand that the plan is to break down the big industries, and we are going to penalize the great industries?

Mr. SARGENT. I have heard that said.

Mr. KNUTSON. We have got it from quite official sources. In other words, it looks as though the plan is to socialize all industry in this country. I do not know where we got the idea, from Russia, Italy, or Germany, or where, but the idea seems to be pretty well demonstrated in high quarters that we are to socialize all industry.

Mr. SARGENT. I will say, sir, that if that should happen under any of the provisions, or be a direct or indirect result of any of these provisions, it could be a result of the income tax and the inheritance tax, upon which I am not authorized on behalf of my association to make any representation. We are interested as representatives of corporations and as stockholders primarily only in this graduated corporation income tax.

Mr. KNUTSON. In these times it is a crime to be well to do.

Mr. SARGENT. A lot of us would like to be criminals.

Mr. KNUTSON. I would myself.

Mr. REED. Mr. Sargent, any scientific tax system for the United States Government would have to be predicated upon some limit placed upon the spending, would it not?

Mr. SARGENT. You can have taxes, which in themselves are sound in principle, without relation to the amount of money which is raised. They may be unsound in their economic effect because of specific rates which might be embraced in them, and, therefore, have a bad effect socially and economically on the country, irrespective of the soundness of the taxes.

Mr. REED. But spending can be carried to a point where it destroys any system of taxation?

Mr. SARGENT. Yes, sir; it can be.

Mr. KNUTSON. Has it been done, Mr. Sargent?

Mr. SARGENT. I would say that while we have had large spendings, and while we are approaching a point where the burden economically upon the resources of the country as a result of taxes is becoming very great and very dangerous, I would not say that we have yet arrived at a point where the taxes are such as they are apt to break down the country. If it were expanded to any very great extent, I think there is a very great danger.

Mr. KNUTSON. Have we not arrived at a point where business is apprehensive?

Mr. SARGENT. Business is apprehensive, Mr. Knutson, I think partly because of taxes and partly because of other causes. Nothing is as simple as saying that any one thing accounts for the condition in which business finds itself, but there is a variety of things affecting and influencing it.

Mr. KNUTSON. The Government is now operating 20 big corporations and a number of lesser corporations.

Mr. SARGENT. That is correct.

Mr. KNUTSON. We are in the railroad business, steamship business, furniture-manufacturing business; we have not quite gotten to the pottery business, but I am rather expecting it.

Mr. SARGENT. I recall, sir, that a special committee of the House of Representatives, a few years ago, 2 or 3 years ago, sent in a report showing 232 different forms of business enterprise conducted by the Government, competing with private industry.

Mr. KNUTSON. You are referring to the Shannon report?

Mr. SARGENT. Yes, sir.

Mr. KNUTSON. And that was made by a Democratic committee.

Mr. SARGENT. There were Democratic and Republican members on the committee and, as I understand it, they made a unanimous report.

Mr. REED. Of course, the 232 forms of private business that the Government is now engaged in, of course, do not include many of these Federal corporations.

Mr. SARGENT. I cannot say whether they added to already existing enterprises that the Government was engaged in or they were entirely new. I would not want to say, Mr. Reed.

Mr. KNUTSON. Do you think that these taxes which are now being levied, and those proposed to be levied, will retard business recovery, Mr. Sargent?

Mr. SARGENT. I think that combined with a number of other things, the threat of these taxes combined with other things is having a retarding influence; yes, sir. On the other hand, I think there is a vast pent-up demand in this country, and if this business apprehension were removed, the result would be that business would go ahead at a very rapid rate.

Mr. KNUTSON. In other words, that it would enable us to reduce the amount that we are spending for relief?

Mr. SARGENT. Yes; that is correct.

Mr. LEWIS. Reference has been made, Mr. Sargent, to the Government being in certain lines of private business. I happen to remember that it is, and that it conducts through one of its corporations the Panama Railway. Do you remember under whose administration the Canal was built and the operation of the Panama Railway took place?

Mr. SARGENT. Perhaps my knowledge of history is not as good as yours, but as I recollect it, it was under the administration of Theodore Roosevelt.

Mr. LEWIS. It may be that we are still operating—that we are still operating some sort of a railway up in Alaska.

Mr. SARGENT. I think so, sir.

Mr. LEWIS. My recollection was that that enterprise was inaugurated during a Democratic administration. I am quite sure it was.

In other words, if there be blame associated with these Government operations, both political parties have the blame to take.

Mr. SARGENT. Taking the two illustrations you gave—and I am not a partisan in this matter at all—I do not think there is any blame to be attached to the Government operating those two particular enterprises. They were inaugurated in cases where it was impossible to have private capital raised needed for territories and vital possessions of the United States and, therefore, the Government went into it, and I think it was quite proper in those particular cases.

Mr. LEWIS. I believe that some of the clerical organizations in the departments and bureaus around town are conducting cooperative restaurants, and that those are some of the examples of the Government being in business, as cited.

Mr. SARGENT. Those were among them, together with making paint, glue, running laundries, and there is a whole variety of them, if you can imagine any such number, Mr. Lewis.

Mr. LEWIS. As a practical fact, Mr. Sargent, is not the total volume involved utterly inconsequential and negligible in amount?

Mr. SARGENT. As far as the total business of the country is concerned, that is quite true, Mr. Lewis. As far, however, as an individual laundry which may be situated in a small town, where the Government is also operating a laundry, is concerned, it may be a very large proportion of the particular volume involved.

Mr. KNUTSON. The Panama Canal was built as a part of our national defense, was it not?

Mr. SARGENT. That is correct.

Mr. KNUTSON. As the gentleman from Maryland intimates, that what we have spent in these various things is inconsequential. Let me point out that on the T. V. A. we have only spent about \$300,000,000 in the Tennessee Valley to provide some hillbillies with electricity and waterpower, and the rest of the country is being taxed. Of course, I realize, under a Democratic administration, \$300,000,000 is inconsequential when you can drain the whole country for it.

Mr. SARGENT. I think that your question is directed to Mr. Lewis instead of to me, sir.

The CHAIRMAN. Is not our whole scheme of government directed toward national defense?

Mr. SARGENT. Not in the Constitutional sense.

Mr. KNUTSON. You must not mention the Constitution now.

The CHAIRMAN. We thank you for your appearance and the testimony you have given the committee.

The CHAIRMAN. The next witness is Mr. Vivien C. Anderson, of Cincinnati.

(No response.)

Mr. Julian D. Conover.

STATEMENT OF JULIAN D. CONOVER, WASHINGTON, D. C., SECRETARY AMERICAN MINING CONGRESS

Mr. CONOVER. The American Mining Congress is an organization representing the principal branches of the mining industry of this country.

I have been requested by our executive tax committee to present a brief statement with reference to the proposed graduated corporation income tax.

As an organization which has followed the income-tax laws and their development from the very beginning, we extend our sympathetic interest and understanding in the difficult problems with which your committee is faced. We are confident that the committee would not wish to take any steps which would hamper business recovery, reemployment of labor, reestablishment of markets, and the prosperity of our people.

We realize that in framing a measure so controversial and complicated as a revenue act, it is perhaps unavoidable that instances of inequitable taxation as between different classes of taxpayers should creep in. We feel strongly, however, that every effort should be made to avoid embodiment in the proposed bill of principles which are basically unsound and unfair.

We submit that the proposed graduated corporation income tax is an improper concept for the following reasons: (1) It is inequitable, (2) it constitutes an overburden to enterprise, (3) it will retard recovery, (4) it will tend to discourage development of mineral resources. I would like to take up these points in that order:

(1) The inequitable features of a graduated corporation income tax are readily apparent upon a brief analysis. Such a tax deviates widely from the accepted principle of levying taxes in accordance with ability to pay. In the first place, it takes no account of the rate of return upon the invested capital. A large corporation, earning only 2 or 3 percent upon its investment, may be required to pay the maximum rate of tax, which has been suggested as 17 percent, whereas many small corporations, earning 15 percent, 20 percent, or even more, upon their investment, would, by reason of their lower aggregate earnings, pay only the minimum rate of tax. Secondly, a graduated corporation income tax takes no account of the size of the individual stockholder's investment. Millions of small investors in our large corporations would find their earnings taxed at the higher rates, whereas the far larger individual holdings of wealthy persons in many smaller, closely held corporate enterprises would be taxed at the lower rates. These facts have been repeatedly brought out in these hearings and we need not amplify them further at this time.

In the beginning of income taxation in this country, the 1913 law imposed a 1-percent tax on corporations and a 1-percent normal tax on individuals, from which dividends were exempt. The tax on corporations was considered in that law simply as a payment of tax at the source, and the amount which the corporation had thus paid was deducted from the individual's tax. Of course, if the individual had no taxable income he was in the position of having had this amount deducted from his share of the corporate income, or in other words of having been required to pay the 1-percent tax on the corporate income regardless of whether or not he was otherwise taxable. The amount was, however, small and could hardly be termed discriminatory against the corporation.

In the succeeding years there has been no reduction, but, on the contrary, a general increase in the corporation tax to the present rate of 13¾ percent. The individual normal rates were increased particularly for the World War period, and have since been decreased to the present normal rate of 4 percent.

It is hardly necessary to point out that corporations are simply groups of individuals who band their capital together for the purpose of developing a mining, industrial, or other enterprise requiring an

initial investment greater than the amount possessed by any one of the individuals taking part. Behind every dollar invested in such enterprises are the saving and self-denial of some individual. The working dollar invested in the corporate form of business, representing the chief form of productive wealth-producing activity in this country, is already penalized to the extent of 9¼ percent upon its earnings as compared with the dollar invested in a bond or in an individual or partnership business. The graduated corporation tax would not only carry this further, but would be distinctly unjust and discriminatory. It is not sound public policy to encourage saving and investment in organized industry, rather than to submit those who associate themselves with others in the risks of productive enterprise to such discriminating taxation?

2. A graduated corporation income tax initiated at the present time would constitute an overburden on industries which are now and have been for several years sorely tried in attempting to survive.

Mr. VINSON. If they do not make any money and do not have any income, what difference does it make whether it is a flat or a graduated rate?

Mr. CONOVER. I think the remarks which I will make in my statement will bring that out, Mr. Vinson.

Mr. VINSON. I would like to have you answer it.

Mr. CONOVER. There has been too long a period with little or no profit for the mining and related industries; and as a result these industries have been handicapped in the purchase of modern equipment with which to effect the economies made necessary by the competition of the present. The preponderance of the capital available to them has gone into the increased wage cost per unit of production, and for taxes of all sorts, including high State and local levies, capital stock taxes, et cetera.

The manufactured articles into which the products of our mines go are in competition in the markets of the world with foreign goods produced with low-wage labor. It is necessary, it is vital that our producing enterprises be enabled to secure modernized equipment and to establish the most efficient industrial practices in the world. Through such means we will be enabled to maintain present wage levels and at the same time to compete in world markets and to recover and extend our foreign trade. The populations of the world are waiting and anxious to purchase our modernized products, but we must produce our goods for export as well as for home consumption at prices which will permit the people of the world to enjoy them. Industry overburdened by taxation cannot equip itself as American industry should and must be equipped. Only through the optimistic use of capital and the most modern equipment can the present wage levels be maintained in this country.

3. A graduated corporation income tax would retard the recovery toward which all elements in this country have striven so persistently over the past 6 years. Workmen must be employed and only through the production of a maximum of goods and services can such employment be created. In the years within our experience when there was a maximum of employment and a sufficiency of goods and services for all, no such income taxation upon industry as is now contemplated was necessary. Instead, while taxes were ample to provide needed revenue, there was encouragement for workmen and for all prudent

and thrifty people to invest their savings in productive enterprises. The Secretary of the Treasury, in appearing before this committee a few days ago, indicated his belief that the worst of our present emergency is now over, and that business is improving. The return of confidence on the part of investors, small and large, will make available the reservoir of savings needed for the conduct of enterprises on a scale which will permit of low unit production costs. Such a restoration of confidence and increased volume of business will produce far more revenue than inequitable changes in the tax system which make for business unsettlement.

4. The imposition of a graduated corporation income tax would bear with special weight upon the mining industry because of the special risks which accompany the development of mineral resources. In prospecting and exploration for new ore bodies, there are far more ventures which encounter failure and disappointment than there are successes. Only one prospect out of many ever finds sufficient ore to permit of any actual production, and of those which reach the producing stage only a small proportion ever make a real profit.

The odds are extremely long against any individual enterprise undertaken by a small group or small corporation. Consequently it is generally essential that a mining company have sufficient capital to enable it to so diversify its risks that its few successful developments will carry the burden of the many attempts which fail; and through large corporations functioning in this manner, the savings of many thousands of investors can be made available with reasonable conservatism for the development of natural resources. To discriminate against such corporations on the mere basis of size, particularly where such size serves a desirable economic end, is to discourage investment in our second largest industry; an industry which is the primary source of half this Nation's wealth, which employs in normal times 2,000,000 workers, and upon which 25,000,000 people are directly or indirectly dependent for their livelihood.

The mineral industry of this country is by its very nature dependent upon continued discovery and development of new mines. For obvious reasons, including the everpresent possibility of a national emergency, we urge that nothing be done which would lessen the adventurous and aggressive attitude of mining investors and mining men in the finding of additional mineral deposits which will take the place of our present operating mines and of the old and high-cost properties which have been abandoned in the course of the fierce competition of the past 6 years.

The CHAIRMAN. Thank you for your appearance and the information which you have given the committee.

The CHAIRMAN. The next witness is Chester H. Gray.

STATEMENT OF CHESTER H. GRAY, WASHINGTON, D. C., REPRESENTING AMERICAN FARM BUREAU FEDERATION

Mr. GRAY. Mr. Chairman and gentlemen of the committee:

I represent the American Farm Bureau Federation, with offices in the Munsey Building, Washington, D. C.

The Farm Bureau Federation, Mr. Chairman and gentlemen, is appearing here in this tax program, trying to limit itself to the specific measures that the announcement of these hearings contained,

and, if it had not been for that specific announcement, we should have liked to offer testimony on other features of taxation, but we shall limit ourselves to the things that were in the official announcement.

We recognize that the Revenue Act of 1934, to which reference has been made here, includes increased rates of taxes in various ways. In 1934 and 1935 the expenses of the Government have maintained a high level; such a high level, in fact, that any reasonable tax schedule can hardly balance the Budget immediately. So that it is not with the expectation that we are going to balance the Budget immediately that the American Farm Bureau Federation comes before you and asks for some slight revisions of the tax structure.

The policies of the Farm Bureau Federation, may I also say, never have approved the Federal tax statutes other than upon the one point of raising the rates of revenue to run the expenses of the Government, to retire the Federal debt, and to avoid going into debt, where such avoidance is possible.

The CHAIRMAN. Do you mind being interrupted?

Mr. GRAY. Certainly not.

The CHAIRMAN. You would raise the necessary revenues of Government, but you would have to take into consideration the methods by which they were raised?

Mr. GRAY. Absolutely.

The CHAIRMAN. You would not disregard equity in taxation?

Mr. GRAY. That was not the indication of my thought, Mr. Chairman. I meant to state that we approved the raising of revenue for the expenses of the Government. To secure the necessary expenses of the Government, we have never, in our resolutions, which have been drawn and redrawn for 15 years, sought to make the rates so high as to be confiscatory or as to divide the wealth, or, as the expression has it, to "soak the rich." That does not mean that some other organizations may not have those points of view, but the situation, from the point of view of the Farm Bureau Federation, whether the rates are high or low, and they must be higher now than they used to be, is that we want them at a reasonable level to get the funds or the revenue to meet the expenses of the Government and retire the debts.

We like the thought which is being expressed so frequently, and I have heard it expressed before this committee today, that the increased revenue which is being discussed by the committee should be applied wholly, or, at least, very largely, to the retirement of the Federal debt.

In the Farm Bureau we have had resolutions for 10 or 15 years stressing the necessity of retiring the debt.

It is not to be inferred that we criticize the incurrence of the debt in recent years, nor is it meant to attach ignominy on any one particular administration for the incurrence of our present Federal debt, because the present Federal debt was begun to be incurred, or was begun to be increased, by the Hoover administration, and it is still increasing in the Roosevelt administration. So, in speaking of the growing Federal debt, I speak wholly in a nonpartisan way, for, frankly, it is hard to visualize any administration in the depths of the depression from which we are now gradually emerging getting through this period without increasing, in greater or less degree, the Federal debt.

But we want, if you please, these additional tax rates which I shall specify, to be applied as much as may be to retiring and reducing the

Federal debt. It is our thought in accentuating that proposition that if the Nation, this committee, and the Congress get the idea of reducing the Federal debt, it will have a very healthful effect, gradually, if not immediately, upon balancing the Budget and bringing expenses into the receipts of Government.

With those general statements of objectives and of principles from the Farm Bureau's point of view, may I specifically now state what rates and what taxes we should like to have this committee consider?

First, we want accent placed on the estate and gift taxes. It has been our thought in the Farm Bureau—and representatives have been appearing before your committee many times—to stress the point that the Federal Government, even in the Revenue Act of 1934, did not go as far as might well have been gone in inheritance and in gift taxes. It is our judgment that there are more millions——

The CHAIRMAN. You mean as to the estate and gift taxes?

Mr. GRAY. Yes, sir. I dropped into the terminology of the State statutes, but the Federal terminology, of course, is the estate tax.

It is our thought that more hundreds of millions of dollars can be raised through estate and gift taxes than can be raised in almost any other way without upsetting the financial structure of the Nation.

Therefore, we should like to have the Federal estate taxes and the brackets which are now in the Revenue Act of 1934 to be remodeled to the extent that 25 percent should be levied, assessed, and collected beginning, in the matter of net estates, at \$250,000, and gradually increasing these rates to a possible 75 percent on net estates of \$10,000,000 or more. This will bring, within a reasonable time—and I do not intend to be accurate in these estimates, of course—a possible annual yield of \$250,000,000.

You will remember, Mr. Chairman and gentlemen of the committee, that in the present act of 1934 these rates at the \$250,000 level are 16 percent, and at the \$10,000,000 level they are 60 percent. We are advocating that the 16 be raised to 25 and that the 60 be raised to 75 percent. That is not a very large increase, but it will get some more income or more revenue for the Federal Government.

Now, passing to the gift taxes: It looks to us reasonable to take the structure of the estate tax and then adopt a percentage of that estate tax and transfer it over for the gift-tax mechanism. Therefore, we suggest that whatever rate structure this committee and the Congress adopts for estate taxes, it be taken at a two-thirds point or a three-fourths point and made operative for gift taxes. If you take three-quarters of the estate tax and name that "gift taxes" you will find that on the \$250,000 level you will have exactly what the law of 1934 provides, 12 percent, but at the upper bracket, instead of having 45 percent, as in the law of 1934, you will have 75 percent. And by a rough estimate these increases in the gift taxes should bring \$50,000,000.

I do not know how to divide, Mr. Chairman, the possible income from the estate tax and the gift tax separately, because they are so used to being considered jointly, so that let us just surmise for the present that the two, the estate tax and gift tax, according to those increased brackets which I am advocating, will bring about \$300,000,000 annually into the Federal Government.

You will see that those rates are not as high as the greatest ones which Secretary Morgenthau presented to your committee some days

ago, nor are they as low as the lowest ones he presented, but they sort of strike a medium of the rates which he presented.

The CHAIRMAN. Let me ask you if you understood that Secretary Morgenthau did not present any proposed rates? He had been given those rates and asked for estimates as to what they would yield, and he took the rates presented by somebody else and gave the estimate of the yield on those rates. He did not propose those rates.

Mr. GRAY. I understood that he presented those maxima and minima for the information of the committee.

The CHAIRMAN. They were presented to him and he was asked to give us the yield.

Mr. GRAY. I understand that is the situation.

Mr. HILL. The subject which he had under consideration by the submission of the different brackets to him dealt with inheritance taxes that would be in addition to the present estate and gift taxes, to protect the estate.

Mr. GRAY. So I understand.

Mr. HILL. If you impose a tax on inheritance and leave the estate taxes stand as they are in the law, you would have an increase in taxation upon the estate, whether you call it an estate tax or an inheritance tax.

Mr. GRAY. Yes, sir. The yields which have been estimated from increases in estate and gift taxes can be duplicated by the imposition of a Federal inheritance tax. If this is done it might be better to have the Federal estate tax rates where they are in the Revenue Act of 1934.

Passing on, now, to the corporation tax—

Mr. KNUTSON. Before you do that, Mr. Gray, let me ask you a question: What consideration have you given to the private holdings in close corporations in the matter of inheritance, gift, and estate taxes?

Mr. GRAY. None at all.

Mr. KNUTSON. The reason I asked for some estimate is that we had before us the other day a very intelligent and evidently a very successful gentleman named Jackson, who has spent the greater part of his life, being a man, I should say, in his sixties, in building up a newspaper property, and it is his ambition to leave that newspaper to 5 sons, 2 of whom are already in the business. Suppose that that plant were worth \$10,000,000 at the time of the present owner's death, and you put a very substantial tax on that property: Is it conceivable that the heirs would be obliged to sell a controlling interest or the whole thing, for that matter, to get enough money to pay the inheritance taxes?

It could upset the plan of man who has been working for what? To build up a great newspaper property for his boys. We should give some consideration to a situation of that kind, do you not think?

Mr. GRAY. Possibly; but there is nothing in the policies of the American Farm Bureau Federation, in its resolutions, that covers an instance such as you have described, Congressman Knutson, so that I think I should say in reply to your question that I have given no consideration at all to that matter, and that while the policies of our Federation are rather liberal on tax matters, yet they have not considered that particular angle. That might be an inequity. I am not prepared to say officially whether it would be or not.

Mr. KNUTSON. Off-hand, you would deplore the situation arising where a man's lifework would be upset and his plan thrown into the discard?

Mr. GRAY. That would be my personal reaction; yes, sir.

Mr. KNUTSON. I wanted to get your opinion on it.

Mr. GRAY. Yes, sir.

Mr. HILL. The only way to meet that would be to exempt the industry?

Mr. GRAY. Yes, sir; that type of industry, or a family corporation, or describe it in any other legal terminology you might devise.

Mr. HILL. You would destroy your tax system in doing it, would you not?

Mr. GRAY. I was going to point out the difficulty in making exemptions, Congressman Hill. Take, for example, an instance of the character Congressman Knutson describes, and you can hardly exempt that one instance, or that type of instance, without broadening your exemption further along to others which are comparable, and therefore destroying the revenue-raising characteristics of the whole tax structure.

Mr. HILL. In other words, it is absolutely impracticable if you are going to have a tax system?

Mr. GRAY. I would consider that to be true, although my personal disposition would be, as I have stated, to exempt that one type of corporation.

The CHAIRMAN. The very situation described by Mr. Knutson might necessarily result under the present estate taxes in breaking up the business. It is the same thing under an estate tax as an inheritance tax?

Mr. GRAY. Surely; that is true. We advocated before this committee last year, I believe it was, a slight increase in the general corporation tax which is now 13¾ percent. For 10 years, almost annually, I or some other spokesman for the Farm Bureau Federation have advocated increases in the corporate tax rate which seemed to us necessary to get the proper amount of revenue. We have now 13¾ percent as the rate in the Revenue Act of 1934. It seems to us, to the Farm Bureau Federation—and our resolutions contain this—that it is just as workable, at least it is as equitable, to have a graduated corporation tax as it is to have a graduated personal income tax. Of course, we have not exactly a graduated personal income tax, except in this way: We have a 4-percent flat rate and in the surtax it makes a graduation.

It looks to us in the Farm Bureau Federation that there should be a graduated corporation income tax, or a flat tax somewhat higher than the tax in the law of 1934, with an excess-profits tax. We can hardly see the reasonableness of taxing a person at a higher rate for a larger income and then not taxing a corporation a higher rate for a larger income.

Now, as we are going to have, Mr. Chairman and gentlemen, a corporation tax without the excess-profits tax, then we are recommending that a 10-percent rate on annual net incomes beginning at \$2,000 be put into effect and graduated up to some rate varying from 16 to 20 percent. Naturally I have not worked out all of those steps, because that is not necessary, if I can merely leave with the committee the general thought which is in our minds. This increase can be estimated

to be \$100,000,000, or possibly \$125,000,000, more revenue to the Government annually than is now secured.

Mr. KNUTSON. You heard Mr. Sargent's statement?

Mr. GRAY. Yes. I was very much gratified to hear his argument awhile ago.

Mr. KNUTSON. I do not know how it affected you, but it sounded quite logical to me.

Mr. GRAY. It did not sound so logical to me, Congressman Knutson, on account of the fact that for approximately 15 years the policies of the Farm Bureau Federation have been to advocate graduation of the income-tax structure both for persons and for corporations. That is a rather well-established principle in the Farm Bureau Federation.

Mr. KNUTSON. But, Mr. Gray, there is a vast difference between a corporation and an individual. You can tax an individual 'way 'way up without working any injustice or hardship, but unless you differentiate, as I understand it, and consider it as between the various kinds of corporation, you are going to work an injustice on the stockholders of some corporations.

Mr. GRAY. I will not deny that that may be true, but transfer our argument or thoughts over to the personal income rate of 4 percent, plus the surtax, and might it not be equally certain that a man who has a large income, having to bear the surtax, is unduly placed as compared with some other man making the same commodity, perhaps, who does not make so much income, and consequently bears a lower tax? In other words, the incomes of the individuals places the man making the very great income at a disadvantage if he sells the same commodity as the other man produces on a lower income base.

I grant you that there are some inequities in these tax matters and in the structures, and the inequities cannot all be removed, but if there is inequity in the graduated corporation tax, it is an inequity in the graduated personal income tax.

Mr. KNUTSON. I think there is a difference there, Mr. Gray.

Mr. GRAY. If you cannot adopt the graduated idea in the corporation-tax principle, it would be as logical for me to stand here and ask you to remove the surtax on the person, because that is a graduated income tax on the individual.

Mr. KNUTSON. Yes; but, Mr. Gray, we will assume, for the sake of argument, that you and I each have an income of \$10,000, from whatever source. We pay identically the same tax; do we not?

Mr. GRAY. On the \$10,000; yes, sir.

Mr. KNUTSON. Now, we will assume that you and I each have \$10,000 invested, in two different corporations. I happen to be in a big corporation and you happen to be in a small corporation which is owned by four or five individuals. Under the theory expounded by Mr. Sargent—and I think what he said is incontrovertible—you would pay a much smaller tax than I would, and we would both have the same amount invested, only in two different corporations. When you get to looking into that question, Mr. Gray—and I know you have—you find that it is very easy to work injustices in imposing a graduated income tax on corporations; do you not?

Mr. GRAY. Yes, but I could point to another demonstration. Let us imagine that you and I are farmers, raising potatoes. You are

more efficient than I, or else you operate on a bigger acreage, and you sell your potatoes so that you have \$50,000 net income a year. Under the brackets in the revenue law of 1934, with the 4 percent flat and the surtax, you pay a bigger tax on your income than I, who own a lesser acreage or for other reasons do not have an income beyond \$10,000 a year.

In other words, I am placed, on account of having a lesser Federal tax, in position to put my potatoes on the market at a slightly less cost of production than you might be able to do, and therefore and thereby produce an inequity as between you and me. I make the point that if there is inequity in the graduated corporation tax there is a similar, maybe not equal, inequity in a personal graduated income tax.

Mr. KNUTSON. So it is not your thought that the Government should penalize efficiency?

Mr. GRAY. No, indeed.

Mr. KNUTSON. Would it not be true under your plan? Would not the more efficient producer be penalized under your plan?

Mr. GRAY. Either the more efficient or the larger producer, as the case might be, and there might be both efficiency and volume.

Mr. KNUTSON. You know enough about the situation to know that you can take two men and start them off at the same time, two brothers, we will say, in the same line of business. One will make a success of it and the other will make a failure of it, or just merely get along. I do not believe that we should penalize the brother who is the more efficient.

Mr. VINSON. Under the personal income tax, certainly, whether you call it a penalty or not, you have a situation where the fellow with the larger income paid more tax per dollar than his less fortunate brother.

Mr. GRAY. That is the point.

Mr. KNUTSON. That is true, so far as net income is concerned, but what I am getting at is that you would penalize a more efficient corporation, all things being equal, say, as to size, and in the same line of business, and it does not look to me as though that would be a very sound thing to do.

Mr. GRAY. It would not be sound, except from our point of view in the Farm Bureau Federation, we have a Federal debt, which, under the recent conditions of the last few depression years, has grown, and from the Federation's point of view it is advisable to begin to reduce that debt. If that reduction is going to be consummated, we have got to have some more income for the Federal Government to do it with.

Mr. KNUTSON. Mr. Gray, as a matter of fact, the only tax that you can really justify is the graduated income tax. Is not that true?

Mr. GRAY. No; there are other kinds of taxes that we can advocate besides the graduated income tax.

Mr. KNUTSON. The graduated income tax is based upon the ability of the individual to pay?

Mr. GRAY. Yes; and that ability varies with his earning capacity.

Mr. KNUTSON. With his income.

Mr. GRAY. With his income, which, in a way of speaking, measures his efficiency for volume operation, and other factors which go into total income.

Mr. HILL. It includes the amount which he has invested in his business, as well as his efficiency. In other words, an individual might have a large investment and have a large return, but not have such a large percentage of return, and yet he pays on a graduated scale, by reason of his large income, a certain tax, but it may be a small percentage of the net profit.

Mr. GRAY. That is true.

Mr. KNUTSON. We will use an illustration. I am going to use a newspaper. We will say that a newspaper is owned by a publisher who is absent most of the time. Of necessity, it costs him much more to operate that paper than it does a publisher who is constantly on the ground. Yet, under your plan, the absentee publisher would pay a much smaller tax than the man who was constantly on the job looking after his property.

Mr. GRAY. That might happen in some instances. You cannot write a tax law that will overcome all of these objections.

Mr. KNUTSON. But why should the absentee publisher be favored in the matter of taxation?

Mr. VINSON. How is he favored?

Mr. KNUTSON. He is favored.

Mr. VINSON. How?

Mr. KNUTSON. He would be favored because the operating expenses which he deducts are much larger than the man who does much more of the supervisory work of the paper.

Mr. VINSON. It might be less or it might be more.

The fellow who is absent might be getting more money than he is making out of the newspaper.

Mr. KNUTSON. If he does, he is paying it out in another form of taxes.

Mr. GRAY. That brings up the subject, Congressman Knutson and Congressman Vinson—and I have this to say on the subject—that, as many will remember, we in the Farm Bureau Federation have stated that the deductions and exemptions are also another avenue to be explored as a method of getting more revenue for the Government. We are not advocating them here because I understand from the announcement of this hearing that those are not subjects of consideration. I wish they were. If they were, we would present some data and some opinions that these deductions and exemptions should no longer be statutorily allowed.

Passing over to individual surtaxes, which we have already discussed a little bit, beginning with the net annual incomes which reach \$200,000 a year, we advocate a rate of 60 percent graduated from that point up to 75 percent on incomes of \$10,000,000 or more.

Mr. HILL. Where do you begin, please?

Mr. GRAY. At incomes of \$200,000 the rate should be 60 percent, and then step that rate up gradually to 75 percent when the incomes reach \$10,000,000 or in excess thereof. I do not know how much that will bring in except from the experience of the last few years, but a reasonable estimate, I believe, would be about \$20,000,000 a year. At the present time, in the present law of 1934, the rate which applies to the \$200,000 income is 54 percent. We are stepping that up to 60 percent. The rate in the present law which applies to a \$10,000,000 annual income is 59 percent. We are stepping that up by our recommendations to 75 percent.

Mr. VINSON. Of course, you would add the 4-percent normal tax?

Mr. GRAY. The 4-percent normal runs through this.

Mr. VINSON. I beg your pardon. If that is your surtax rate, that would be 75 percent exclusive of the normal.

Mr. GRAY. Let me state that again. This is based on the 4-percent rate and is in excess thereof.

Then there is another method of getting income, by reducing or eliminating the existing exemptions for dividends received by a corporation from its subsidiaries or affiliates, and this may possibly bring in an increased revenue of \$40,000,000 a year.

The recommendations we are making here are, then, all told, approximately \$500,000,000 annually in excess of the revenue which is provided in the act of 1934.

May I repeat that if we do not want a graduated corporation tax, the only alternative is to adopt a flat tax somewhat higher than the rate in the law of 1934, and then resort to the excess-profits tax.

If it is the desire of the Congress and of the committee and of the public at large to get still more income than \$500,000,000 a year, to apply on the Federal debt—really there ought to be \$1,000,000,000 a year to reduce this debt, with conditions becoming a bit more normal—I am not advocating it immediately, but when conditions become normal we ought to wipe out this debt to the tune of \$1,000,000,000 a year, and if the increased rates which we are offering here do not get that, then we are not adverse, in the Farm Bureau Federation, Mr. Chairman, to raising the rate on the individual income, which is now 4 percent, and it might be stepped up to 4½, which would get—

Mr. VINSON. You mean the normal rate?

Mr. GRAY. I mean the normal rate; in other words, step up one-half percent, or thereabouts, and get the revenue which your specialists here could estimate quickly for your benefit.

In conclusion, and somewhat in review, we are basing our rates on the Revenue Act of 1934, and you will note that our rates are in no great or alarming increase over the rates of 1934. We have these different types of taxation already in the Federal tax structure, and all we in the Farm Bureau Federation want to call your attention to is that those rates should be made a little bit higher for the purpose of getting more revenue, for the purpose of reducing the Federal debt.

If there are no other questions, I am through.

The CHAIRMAN. We thank you for your appearance, Mr. Gray, and for the information that you have given the committee.

The CHAIRMAN. The next and last witness, so far as the Chair is advised, is O. G. Saxon.

STATEMENT OF O. G. SAXON, PROFESSOR OF BUSINESS ADMINISTRATION, YALE UNIVERSITY

Mr. SAXON. Some of my argument will be repeating arguments that have already been made by men such as Mr. Sargent, so that I will touch upon that very briefly.

Those who oppose drastic inflation of the type which did such great damages to various European nations in the twenties—damage to all elements, large and small, capital and labor, realize that the balancing of the Budget is essential to avoid such inflation in this country. The

administration has to date repudiated currency inflation. The dangers of a credit inflation of serious proportions do not concern us immediately—in fact, our pressing need is the expansion of credit to an appreciable extent. On the other hand, inflation from a long-continued unbalanced budget is our greatest danger today—and it is a real, not an imaginary one. Our unprecedented national expenditures since 1929 and our present record debt will, if continued much longer, destroy confidence in Government credit and result in drastic currency inflation, capital levies, or repudiation.

While our present Federal national debt is relatively much smaller than that of other countries, the addition of our local, county, and State debts reduces the disparity to near the vanishing point. On the other hand, our emergency expenditures are without parallel in history and cannot be continued for long without disaster.

The balancing of the budget involves two vital steps on the part of Congress—first and most important is the drastic reduction in appropriations and expenditures, and, second, a substantial increase in Federal revenues by broadening the base of income taxes so as to reach the lower brackets, increasing the individual and corporate rates, drastically, if it should become necessary. A balancing of the budget will revive confidence, stimulate business activity, profits, revenue, buying power, and, most important of all, tend to solve the problem of unemployment.

There is, however, great resistance from many quarters and a great mass of the people to the present proposals as untimely, and to certain aspects of these proposals as unsound and more likely to impede rather than foster recovery.

This lack of enthusiasm is well grounded in sound economic and social reasoning. In the first place, the proposals, in their most drastic form, which, however, seem unlikely to be adopted, fall far short of balancing the budget, according to the estimates of the Secretary of the Treasury, because they are not accompanied simultaneously by a drastic reduction in appropriations and expenditures. In fact, none is offered. Instead, we are given mere expressions of vague hopes for the future. The reply is that the time is inappropriate, that reduction will come in time, when the unemployment problem has been solved, and the acute financial stress and strain on various elements in our economy are alleviated. This reply is inadequate. The impetus to trade recovery and reemployment will not materialize until substantial measures have been taken by Congress to reduce drastically these heavy expenditures. Consequently, it would appear wiser, not only economically and socially but also politically, to postpone these tax proposals until next year or such time as expenditures can be heavily cut simultaneously with tax increases. This delay of a year or more would have a beneficial effect. In 1934, for the first time since 1930, incorporated enterprises in this country in the aggregate showed a profit.

During 1931–33 business, as a whole, according to Treasury figures, suffered tremendous losses running into billions of dollars of capital impairment, destruction of surpluses, and suspension of or drastic cuts in dividends to stockholders who constitute a large cross section of the purchasing power of the country. A delay would give business the opportunity to replenish impaired capital and surplus accounts, set up more adequate reserves against contingencies, and

increase the purchasing power of stockholders through increased dividends, aid in the stabilization of equity values, stimulate the distressed producers' goods industries, where unemployment is greatest, by replacing obsolete equipment, and so make for sounder conditions and reemployment generally.

Meanwhile, Congress could make a great constructive move forward by a study of the entire problem of taxation looking toward revision along more scientific principles in light of the experience of the past 20 years. There are many aspects of this problem, such as the proper allocation of certain spheres of taxation to the individual State and others to the Federal Government, the advisability of a Federal sales tax, the problem of taxation of capital gains and deduction of capital losses, the wisdom of taxes on excess profits and corporate surpluses, the most productive tax rates on income and inheritance consonant with sound economic and social principles, and, finally, the question of broadening the base of all forms of taxes to include the lower as well as the higher brackets.

President Wilson well pointed out to Congress in 1919 that—

There is a point at which in peace times high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation, with consequent unemployment and other attendant evils.

Now, with reference more specifically to the recent proposals. Congress should have in mind that, in order to avoid retarding recovery, the new taxes must be sound and reasonable both in principle and in rates. Otherwise the consequences will be a net reduction in Federal income through decreased business activity with accompanying increase in unemployment, decreased purchasing power to all groups, and general instability.

The proposed graduated corporate income tax is utterly unsound in principle, discriminating in its effect, and, once adopted as a national policy, would, in all probability, in the near future have extremely disastrous economic and social consequences from a drastic increase in the graduated rates in ill-considered efforts to balance the budget.

The President, in his recent message, said:

With the enactment of the income tax law of 1913 the Federal Government began to apply effectively the widely accepted principle that taxes should be levied in proportion to ability to pay and benefits received. Income was wisely chosen as the measure of benefits and ability to pay.

With this statement it would seem at first blush that no one can honestly disagree. However, on analysis, it appears beyond the shadow of a doubt that the graduated corporation income-tax proposal violates this very principle of taxation according to the ability to pay. Furthermore, most economists question any graduated tax as economically unsound as a permanent measure.

A graduated income tax on individuals is not open to the first objection—it follows truly the principle of taxing according to the ability to pay. Larger incomes are taxed on an increasing scale as the incomes rise on the theory that size of income is the fairest test of ability to pay and benefits derived from the protection of the laws.

The case is quite different, however, where the graduated corporate levy falls on dollar income without regard to the percentage of profit earned or the ratio of net earnings to net worth. The corporation is a legal fiction—a creation of the State to permit the

coordination of the capital of many individual stockholders into one unit—stockholders who are the joint proportional owners of the artificial entity and share among themselves the income produced. Because of the redistribution of the income of the corporations to thousands or millions of what may be factually called copartners in common enterprises, the mere size or amount of the corporate dollar income is in no sense a test of its true ability to pay—the test must be applied on the ratio of net earnings to net worth or at least not to the artificial entity, but to the individual copartners, the stockholders, in the enterprise.

Stockholder A may have from all sources no or a very small taxable income, while stockholder B may have a very large income from all sources, but have the same income as A from the corporation. Yet the proposal discriminates drastically against A insofar as the corporate dividend is concerned. Again A invests in a large company which earns, say, 10 percent on its capital, while B invests the same amount in a small company earning 20 percent on a much smaller capital. Here again there is unjust and illogical discrimination against the stockholder of a large corporation in favor of the stockholder of a smaller unit.

One of the fallacies of this graduated corporate tax is clearly illustrated as follows: Partnerships are not included in the proposal. The individual partners receive their share of the partnership earnings directly and pay a graduated individual income tax on their individual stock total income without the intervention of a direct tax upon the partnership. The principle should be the same with corporations inasmuch as the major purpose of incorporation is the avoidance of unlimited liability. In one case the owners of the business are taxed in accordance with their own ability to pay while in the other, insofar as the proceeds from the business is concerned, they are taxed not in accord with that principle, but upon the dollar income of the corporation itself.

It is estimated by reliable agencies that the average investment in common stocks is about \$2,700, with millions of investors owning considerably less, and that there are between 7 and 10 millions of such investors. The problem then is not one relating to a small number of large corporations, but to millions of small investors, who because of well-known limitations primarily invest in stocks of highly capitalized corporations because of their relative stability, while hundreds of thousands of investors of larger means invest in corporations of moderate or even small capital structure with opportunities to earn, in many instances, a much larger percentage of profit. In fact, most statisticians agree that the smaller corporations as a rule make larger percentages of profit than large corporations, though they also show heavier percentages of loss and relatively less stability in both boom and depression years.

Consequently, the proposal penalizes the large and small investor large corporations as compared with both large and small investors in small corporations. This is especially true where there are senior stock issues ahead of the common in which event the discrimination becomes more severe through leverage. And, in all cases, it tends to impair the position of creditors of large corporations.

The graduated tax further penalizes efficiency and managerial ability contrary to sound economics and American traditions. Large-

scale organization, capitalization, and operation are, in the main, the chief causes of our high standard of living and our ability to realize upon our natural resources. There are, undoubtedly, justifiable limits to size, particularly size of a monopolistic nature, but there are more appropriate measures for such limitations, for, after all, taxation with limitation of size in view is an effort to reach the results rather (than) the cause of the problem.

There is neither time nor occasion to go into the advantages of large-scale enterprise. A recent study by W. L. Crum, of the Harvard Graduate School of Business Administration, entitled "The Effect of Size on Corporate Earnings and Condition," is an unusually capable exposition of the subject in light of the current depression. A similar study by W. A. Paton, entitled "Corporate Profits as Shown by Audit Reports," is also of great value in throwing light on this problem.

One of the major outstanding features of the depression, however, has been the relative stability of the more highly capitalized corporations as illustrated by the tabulation of Professor Crum based upon Treasury data for 1931 and 1932 as given below:

Percent of statutory net income or deficit to net worth of corporations classified by size of total assets

Asset classes (thousand dollars) all corporations	1931			1932		
	Income corporations	No-income corporations	All corporations	Income corporations	No-income corporations	All corporations
Under 50.....	11.7	-52.4	-21.9	9.6	-46.7	-33.0
50-100.....	8.1	-23.4	-9.1	6.9	-21.0	-14.0
100-250.....	7.2	-17.7	-6.7	6.5	-15.8	-10.0
250-500.....	7.0	-14.0	-5.0	6.4	-13.0	-7.6
500-1,000.....	6.5	-11.8	-4.4	6.1	-11.9	-6.9
1,000-5,000.....	6.2	-10.3	-4.0	5.4	-9.8	-5.7
5,000-10,000.....	6.7	-9.4	-3.0	5.5	-10.1	-5.1
10,000-50,000.....	6.1	-8.3	-2.0	5.3	-8.3	-3.8
50,000 and over.....	5.2	-3.5	.3	4.2	-4.0	-1.1
Total.....	5.9	-7.9	-2.0	4.9	-8.2	-3.9

Note that in the income-producing column for these years the percentage of profit falls with the increase in the net worth and that in the nonincome column the percentage of loss declines with the increase in net worth.

These figures prove two fundamental propositions:

First, that large corporations render their services to the public for a smaller return on capital invested than the small companies.

Second, that large corporations are relatively more efficiently managed, so that they have greater stability of profit and can continue dividends and wage payments during depressions, thereby creating greater stability in purchasing power and employment than would otherwise be the case.

In 1934 there were only 59 corporations reporting net income of 10 millions or more, in contrast with 179 in 1929.

The year 1923 was a recovery period following the 1921 depression and is generally considered a good business year. The results of that year are of particular interest, as given on page 222 of *The Shifting*

Effects of the Federal Corporate Income Tax, published by the National Industrial Conference Board:

Manufacturing corporations, 1923

Profit rate in percent	Number of corporations	Average capital investment in thousands of dollars
Up to -10.....	21	5,787
-9.9 to -5.0.....	11	5,683
-4.9 to 0.0.....	29	17,709
0.0 to 4.9.....	260	13,598
5.0 to 9.9.....	514	11,267
10.0 to 14.9.....	576	5,630
15.0 to 19.9.....	518	4,734
20 and over.....	996	2,786
Total.....	2,925	6,323

Note that of a total of 2,925 reporting manufacturing companies, 21 with average net worth of \$5,787,000 lost 10 percent; 29 with average net worth of \$17,709,000 lost from 1 to 5 percent or operated without profit; 514 with an average net worth of \$11,267,000 made between 5 and 10 percent; while 576 with average net worth of \$5,630,000 earned from 10 to 15 percent; and most surprising of all 996 companies with average net worth of only \$2,786,000 made 20 percent or over in profits. These figures verify in a recovery year what the 1931-32 figures prove for the depression period, as tabulated by Professor Crum in his study previously mentioned. They further prove that graduated corporate taxes are discriminatory as between the corporations themselves in that the corporations with the highest percentage of profit on net worth would pay lower rates of taxes. Consequently the dangers and iniquities of such a tax should be apparent, but the dangers are more serious. Let the graduated rate of taxation be increased and the result would be a tendency to break up large corporations or in any event to prevent new ventures in large-scale endeavor which as has been indicated is mainly responsible for the development of the Nation's relatively high standard of living, what stability of purchasing power and employment we have, and greater services to the public at lower cost than in case of smaller-scale enterprises. Therefore, the obvious conclusion should be to encourage and regulate size rather than destroy or prevent it. For, in the ultimate analysis, this tax discrimination would render it most difficult to obtain adequate capital for large units, prevent justifiable expansion, and tend to break up the present large units which employ about 70 percent of our industrial labor.

While most economists agree that the income tax cannot be passed on, as a general rule, to the consumer, nevertheless the consumer will in the long run pay, through decreased services, lower quality, higher prices, and a generally lower standard of living.

Mr. VINSON. Do you adhere to the view that graduated corporate income taxes would tend toward decentralization of the corporate structure?

Mr. SAXON. Very definitely if the rate is sufficiently high; it is a question of degree.

Mr. VINSON. Say it is 17½ percent.

Mr. SAXON. The tendency is there.

Mr. VINSON. I am not talking about the tendency. I am talking about this: Do you believe that it would cause the cutting-up or the disintegration of the corporate structure?

Mr. SAXON. Not immediately but in the long run it would, in this sense—

Mr. VINSON. That is what I would like to hear you speak about. Take your corporation with a capital structure of \$20,000,000—and when you increase the corporate tax from $13\frac{3}{4}$ percent to $17\frac{1}{2}$ percent—in other words, the income of that corporation, \$20,000,000 structure, would bring it within the highest rate, $17\frac{1}{2}$ percent: I want you to tell me how the imposition of that maximum rate would bring about the disintegration of that company.

Mr. SAXON. Let us assume, sir, that a competitor of this corporation developed a new process which required the replacement of the entire machinery and equipment in that plant, otherwise it would be noncompetitive. It would require a new and further heavy investment in the corporation. Where would they get the new capital?

Mr. VINSON. If you want to assume something, let us assume an earthquake occurred and swallowed up everything.

Mr. SAXON. The process is going on all the time, that new machinery must be supplied to replace the old, or otherwise the competitive situation is lost. If they had sufficient reserve for that, it would not be felt immediately, but there are many corporations today without such surplus. They have been living on what they have to support their laborers and their stockholders.

Mr. VINSON. Of course, I am not a Yale man, and I cannot follow you as to your statement being responsive to my question.

Mr. SAXON. I think I have been responsive, sir.

Mr. VINSON. It may be.

Mr. SAXON. I intend to be. I do not intend to hedge on you.

Mr. VINSON. I am not saying that you are, but I do not get the connection. Let us try from another angle:

What advantages, if any, in savings of money from the lower tax rate would occur if you take the \$20,000,000 corporate structure and divide it up into, say, twenty \$1,000,000 structures?

Mr. SAXON. It is not a question of what savings would be effected by the corporation itself, but it is the question of the return which an individual investor would get by investing in a small company rather than a large one.

Mr. VINSON. I am not talking about that. That is one thing. I am talking about the disintegration.

Mr. SAXON. Yes, sir.

Mr. VINSON. What I am speaking of is this: What advantages are there? The corporation is out to make money, and that is a laudable ambition. I am not critical of that. Now, they are going to have either the \$20,000,000 capital structure or they are going to have 20 separate \$1,000,000 structures, or corporations, whichever will permit them to make the maximum amount of money. That is correct, is it not?

Mr. SAXON. Yes, sir.

Mr. VINSON. What I would like to have you direct your attention to, is wherein there will be any savings to the corporation, and thereby to the stockholders, in decentralizing.

Mr. SAXON. I think this, sir: Assume that the company is incorporating a new enterprise: A large-scale enterprise requiring mass production and new capital, I mean. If the graduated corporation income tax suggested were put into effect, they would find it a great deal more difficult to induce the stockholders to invest in that large-scale enterprise, or, if that were not so, they would find that they would have to sell the stock at a comparatively heavy discount in order to induce that large investment.

Mr. VINSON. The trouble is, you are talking in the language of Yale and I am still thinking in the language of a little college in Kentucky, Centre. And we are not together.

Mr. SAXON. I think you understand it.

Mr. VINSON. I am asking you to answer my question, and I am asking it seriously, because, while you many not think it, I may have a viewpoint in that connection that might not be that which you think I have.

The point I want to know is, can you state any savings due to this disintegration? Assuming that this increased rate is so burdensome, 17½-percent, that something has to be done, and they do not want to pay this 17½-percent rate, and they divide up their business into smaller corporations: The point I am really getting down to is, when you divide your \$20,000,000 structure into 20 separate corporations, most probably the income from each one of those \$1,000,000 corporate structures would still have you up in the high corporate rates under this system of graduated corporate income tax.

Mr. SAXON. I will grant that that is perfectly possible, but, as I conceive it, sir, the result would be that the large corporation might be forced to suspend, and it would not be a question of voluntary choice and decentralization, as you call it, but it would be a question of suspension of operations, and their place might be filled by innumerable small corporations.

Mr. VINSON. You have already stated that 17½ percent would not do that.

Mr. SAXON. I think it is a matter of degree.

Mr. VINSON. You have already said that?

Mr. SAXON. Yes, sir.

Mr. VINSON. But I was going further and assuming that you would make money by having several smaller corporations.

Mr. SAXON. Then they would do it, in any event.

Mr. VINSON. That is what they would do, but the point I wanted you to discuss is, would there be any saving?

Mr. SAXON. It would depend a great deal upon the class of industry involved. You cannot answer it categorically. It is a question of whether mass production is necessary in order to be efficient in that particular industry.

Mr. VINSON. You could have mass production, of course, even if you divided it up, because they would be so closely connected that they could continue to do the production just as they had been doing.

Mr. SAXON. I do not think your 20 companies could be run as efficiently as one could and produce in the same volume.

In the final analysis the public benefits far more from the larger aggregations of capital than the investors themselves. Consequently, these aggregations should be encouraged. Furthermore, it is to the interest of the general public and labor, especially, that returns to

investors as well as real wages be brought back to normal levels as soon as possible.

In passing, it would be well to comment on another prevalent fallacy, namely, that large corporations earning large dollar net incomes rather than large percentages of profits benefit more greatly from the law and governmental function than do smaller corporations. This cannot be substantiated on sound economic principles or sheer logic. Small business receives the same police and other protection as big business. Special governmental services, such as the mails, et cetera, are paid for in proportion as they are used, but, unless there is some special protection or privilege granted, the Government cannot logically or justly claim greater levies on large enterprises than on small.

The President in his recent tax message quotes Andrew Carnegie, as follows:

Where wealth accrues honorably, the people are always silent partners.

And then the President says:

Wealth in the modern world does not come merely from individual effort—the individual does not create the product of his industry with his own hand; he utilizes the many processes and forces of mass production to meet the demands of a national and international market.

All of which is very well put, but again the true picture is not painted and false deductions are readily made. Mass production is the product only of large capital enterprise through the combination of the investment of many stockholders and efficiency of management. Why, then, abuse and disparage and destroy them? Rather, if you must, control them, but permit them to continue their partnership with the public. These large-scale enterprises are in every sense true partners with the public inasmuch as they share their accumulated earning power and efficiencies with the community in various ways: Through higher wages than smaller units can afford to pay, through shorter hours, lower prices, with consequent higher standard of living, through greater stability during depression, more efficient management, and greater foresight, as illustrated by the maintenance of adequate reserves and substantial surplus accounts for emergency periods, with benefit not only (to) investors but (to) workers. In fact, large business has in the past 25 years more than borne its full share of its partnership obligations with the public instead of shirking and evasion of them as is insinuated in the present tax proposals.

In order to justify the graduated corporate tax at all it should be based upon the percentage of profit or the ratio of earnings to net worth after a minimum ratio has been determined for the normal corporate income-tax rate. This principle worked very effectively as a revenue producer in the early post-war years but aided and abetted in overexpansion of plant and equipment and capacity of production.

This is not to be taken as approval of the excess-profits principle for other than emergency periods, such as war, where it is fully justified.

There are two economic views in regard to excess-profits or any graduated tax: one labeled as conservative opposing the theory on sound, capitalistic economic principles; and the other labeled radical, or, as Professor Taussig, of Harvard, naively says, "It has been called socialistic."

Professor Taussig, in the second volume of his *Principles Of Economics*, gives an entire chapter to the arguments against graduated

taxes, much more effectively than can be done here. The committee would benefit from a perusal of his arguments, the thesis of which is that the theory attacks the results—not the causes—of the alleged evil, and that from pure logic and economic reasoning the theory is unsound, while he is inclined toward the view that arbitrary determination and administration of such taxes are of such an intricate and difficult nature as to raise the question of the advisability of the scheme for fear the economic and social consequences might, in the long run, be disadvantageous rather than beneficial.

In conclusion, two other suggestions in the President's message warrant comment:

The proposal that dividends to corporations on shares of other corporations owned by them be taxed in order to avoid evasion through subsidiary or holding companies is so clearly discriminatory against investors in corporations and particularly in large corporations as to require little discussion. It would have a deflationary effect on the stocks owned, for large-scale liquidation would likely ensue. Furthermore, there is no occasion for such a provision. The revenue yield would be comparatively small and there is adequate control today of stock ownership in competing corporations through the Clayton Act. The President's objective of preventing evasion of the graduated tax could be obtained by requiring consolidated returns or some similar method.

Finally, the proposal to reduce the minimum corporate tax rate to 10 percent, thereby reducing the tax on 90 percent of the reporting corporations, is utterly absurd and unsound from all points of view. Its clear purpose is not to increase revenue but purely political, to avoid opposition to the tax proposal from thousands of small corporations whose levies would be lowered. On the other hand, however, there will be millions of stockholders of larger corporations who will be adversely affected and undoubtedly protest such action. Constructive action by Congress would require a frank acknowledgment of the broadening of the entire income-tax structure, not only corporate but individual, together with rate increases, if necessary, in not only the higher but also the lower brackets.

Sound government requires that all elements of the community, without discrimination or favor, bear their full share of the costs of government. Our entire American tradition is against discrimination and class legislation. A truly public-spirited citizenry is only possible where every man pays his way and bears his own share of the costs of government. Therein lies the assurance that he will always be on his guard against injustice, favoritism, waste, and corruption. Congress, by fostering this attitude, can rid itself of the possible charge that the mass of the people are being drugged for the ultimate purpose of subjecting them to loss of their constitutional rights and liberties and the country to a dictatorial or socialistic form of government.

The CHAIRMAN. We thank you for your appearance and the testimony which you have given the committee.

At this point the Chair will offer for the record a letter from R. E. Wood, president, Sears, Roebuck & Co. I would like to read one paragraph into the record at this point:

While I agree in principle with the proposed inheritance taxes and increases in personal-income taxes, though I have not studied the rates, I must oppose the proposed graduated corporation tax.

Without objection, that letter will be inserted in the record.
(The letter referred to is as follows:)

SEARS, ROEBUCK & Co.
(EXECUTIVE OFFICES, CHICAGO),
Washington, July 11, 1935.

Hon. ROBERT L. DOUGHTON,
Chairman Ways and Means Committee of the House,
House Office Building, Washington, D. C.

MY DEAR MR. DOUGHTON: Since I was unable to appear before your committee today, I desire to have this letter placed in the record of the hearings.

While I agree in principle with the proposed inheritance taxes and increases in personal-income taxes, though I have not studied the rates, I must oppose the proposed graduated corporation tax.

In my opinion, this is an unjust and discriminatory tax levied on mere size of the business unit and without any relation either to the rate of profits the business may produce for its stockholders or to the number of stockholders that may have pooled their investments to create the business. The small corporation making a very large percentage of profit would be taxed at a lesser rate than the large corporation making a very small percentage of profit, and the wealthy owner of most of the stock in a small or medium-sized corporation would enjoy a decided tax advantage over the person of moderate means who may own a few shares of stock in a large corporation.

The proposed graduated corporation tax completely violates the universally accepted principle that taxes should be levied in accordance with ability to pay. Tax experts, including those of the Treasury Department, have heretofore consistently upheld the principle of a uniform rather than a graduated corporation tax.

Even the social reformers who, for one reason or another, feel that some restriction should be invoked against the growth of corporations, have never heretofore, so far as I can learn, recommended a graduated corporation tax as the means of accomplishing their purpose. Mr. Justice Brandies, whose book *Other People's Money* is credited with being the inspiration for the present agitation against size in corporations, was inveighing merely against size attained by uneconomic consolidations brought about mainly by investment bankers for profit. The new securities act and the new banking act will do much toward curbing abuses of this kind.

Gardiner Means, whose writings appearing as Senate Document No. 13 are sometimes referred to as the basis of the present proposal for graduated corporation taxes, certainly did not argue that remedy. On the contrary, he argued for a certain degree of governmental control over industrial policy (as in National Recovery Act) and definitely pointed out that the alternative "would require the breaking up of large corporate units into a very great number of separate and wholly independent competing enterprises with the loss in efficiency which it would entail."

It appears, therefore, that this proposal can be justified neither on the basis of sound taxation nor as a social reform measure. It will not even raise a material amount of revenue.

On the other hand, the adoption of the graduated corporation tax would introduce into business a disturbing element of far-reaching consequences. This would be a step backward toward "horse-and-buggy days." The principle established, the spread between the highest and the lowest rates could be readily widened and perhaps applied to specific lines of business to attain political rather than desirable economic or social purposes.

With proper restraints upon consolidations and mergers and proper enforcement of the antitrust laws, the question of the optimum size of corporations in any particular line of business, will take care of itself: there are natural limitations of management, excessive overhead remoteness from customers, and similar factors which cut into efficiency and under competitive conditions determine the optimum size of the business unit.

I feel that it would be a grave error to inject the graduated corporation tax principle, with its serious economic consequences, and I hope that your committee will eliminate this feature from the bill.

Very truly yours,

R. E. Wood, *President.*

The CHAIRMAN. The committee will recess until 9 o'clock tomorrow morning.

(Thereupon the hearing was recessed until tomorrow, Saturday, July 13, 1935, at 9 a. m.)

PROPOSED TAXATION OF INDIVIDUAL AND CORPORATE INCOMES, INHERITANCES, AND GIFTS

SATURDAY, JULY 13, 1935

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
Washington, D. C.

The committee met at 9 o'clock a. m., Hon. Robert L. Doughton (chairman) presiding.

The CHAIRMAN. The committee will be in order. The first witness this morning is Mr. Fred H. Clausen, representing the United States Chamber of Commerce. Mr. Clausen, will you come forward and give your full name and address, and the capacity in which you appear.

STATEMENT OF FRED H. CLAUSEN, CHAIRMAN OF THE COMMITTEE ON FEDERAL FINANCE, UNITED STATES CHAMBER OF COMMERCE

Mr. CLAUSEN. Mr. Chairman:

I am Fred H. Clausen, president of the Van Brunt Manufacturing Co., Horicon, Wis., engaged in the manufacture of agricultural implements. Throughout an active business career of 35 years of manufacturing I have been compelled to consider taxation from a business point of view. In the work of business organizations, including the Wisconsin Manufacturers Association and the Chamber of Commerce of the United States, I have endeavored to deal with the subject of taxation from the broad standpoint of public interest.

I desire to make it clear that I am a businessman who happens to have given some thought to taxation questions generally and some special attention to the subject of Federal revenues and expenditures. I am not a technician in taxation, a financial theorist, nor an administrator of revenue laws.

I appear here primarily as chairman of the committee on Federal finance of the Chamber of Commerce of the United States. That committee has given consideration to the taxation suggestions in the President's message, to the statements that emanated from the Senate Finance Committee some days ago, and more recently to the statements that have been made in these hearings by the Secretary of the Treasury, by the Chief of Staff of the Joint Committee on Internal Revenue Taxation [Mr. Parker], and by some others.

My presentation will be addressed to some of the general aspects of the suggestions that have been placed before the Ways and Means Committee and to the subject of corporation income taxes, mainly the proposals for a graduated scale of corporation income tax rates and for the reduction of tax exemption of dividends received by a corpora-

tion. At the conclusion of my presentation it is our expectation that Mr. Roy C. Osgood, of Chicago, a member of the chamber's committee on Federal finance, will develop the subject of death dues, and Mr. E. C. Alvord, of Washington, another member of our committee, will develop the subject of personal income taxes.

It is our understanding that it is desired to limit these hearings to discussion of the taxation suggestions that were made in the President's message, that we are not to present opinions or data upon the subject of excise taxes, nor upon various aspects of corporation and personal income taxes other than those dealt with by the President, and must exclude testimony upon what we believe to be inequities and needless difficulties for taxpayers in our existing internal revenue laws and their administration.

Indeed, we do not have concrete amendments to the revenue laws before us. We do not have a determination as to the amount of increased receipts to be sought. We have no intimation as to the expenditure or budget policy for the next fiscal year (1937). We have had only a few days' notice of wide ranges of rates and yields, with, as we shall develop later, some apparent weaknesses in the estimates. We note that there are wide gaps left in each one of the suggestions respecting the method of applying the particular levies. We must guess, within a broad range of possibilities, upon one of the most important features of revenue laws, namely, the administrative provisions that would apply to the suggested taxes.

Despite your helpful statement, Mr. Chairman, that your committee is mainly interested in taxes for revenue purposes, we must labor under some uncertainties as to whether the suggestions that have been advanced will be considered by both Houses principally from the standpoint of revenue policy or from the standpoint of certain social theories; or, if the view be taken that there are mixed motives, then the proportionate weight to be given to the revenue considerations in contrast to the others. With these certainties, like your committee and the Congress, we have the additional difficulty of haste near the end of a laborious session which has passed and is to pass laws that have a direct effect upon revenues and upon the ability of taxpayers to meet the Government's levies.

I will confess, gentlemen, when I came down here, it was with the thought that it was your desire to have a discussion based on the program of so-called "social justice" involved in these suggestions. But, following the statement made by your chairman that you wanted to consider these various propositions from the standpoint of revenue, we representatives of the United States Chamber of Commerce who appear before you this morning, will make our main argument on that basis; and any statements made with reference to the social aspects of this question are more or less incidental, but cannot be avoided in connection with the impact and results of this proposed legislation.

Some of our anxiety and statements are influenced by the fact that there is no certainty that when a revenue bill is evolved the country will be given an opportunity to examine it carefully and to present suggestions and criticisms of it to the appropriate committees in both Houses.

I cannot escape the conclusion, Mr. Chairman, that it is a rather embarrassing and difficult position for a business organization such as ours to be in, to consider the merits of a taxing proposition that is

not a complete program; that is, one that is not connected with a definite program of economy of expenditures and the stated determination that at some time or in some way there will be worked out of this a balanced Budget. I think you will find that there is a desire on the part of businessmen generally to cooperate with the Government, if they could have before them, for their consideration and suggestions to you, a complete program which, of course, involves more than is stated in the proposals that have been made in the President's message.

We approach your committee, therefore, in circumstances vastly different from those in which most other revenue measures have been framed and expressions of opinion tendered. We deplore these circumstances not alone because of the difficulties involved for all parties, when the endeavor is hurriedly to decide upon desirable policy, but also because we know that business is fearful of the effects upon the ability of our citizens—those in and out of public office—to reach our major objective, namely, the creation of conditions conducive to the greater application of private resources and energies to produce economic recovery.

The viewpoint of businessmen in discussing this problem, as others, is the objective which they believe should be sought—the reemployment of men and the restoration by private industry of the return from the depression, so that workers will be employed in industry and commerce, and not depend upon the Government for their sustenance. We therefore naturally consider the effects of a program or a proposal of this kind from such a desirable viewpoint.

If it be the preponderant purpose of the proposals, or at any rate if it be considered that it is the intention of Congress to seek additional revenues, "without", as the President says, "discouraging enterprise", the suggestions and tentative schedules bearing on a graded scale of corporation income tax, on lower exemption upon dividends received by corporations, and on what may prove in practice to be tantamount to confiscation of estates, could hardly be more inadvisable. This we will attempt to demonstrate as well as to challenge the feasibility of the personal income tax proposals.

At the same time we do not wish to be understood as taking the position that new or increased taxes, well conceived with attention to balancing a budget of proper scope, will be inadvisable at a later date. We do take the position that in the general economic interest these kinds of taxes, under all the existing circumstances, should not be enacted now and some of them should at no time be enacted.

If the figure—and I am taking this as an estimate—of \$300,000,000 or \$400,000,000 additional revenue be set as the objective, it is obvious that the gap between receipts and expenditures could be narrowed by such an amount more quickly, with less economic injury, by the Government cutting that amount from its expenditures. It is also obvious that reduction of expenditures must be faced. If in reply it be stated, that when some reduction is made in the scale of Government expenditures, there still will be need for additional taxes, we call attention to the fact that what the country now needs is more income that may be taxed, not taxes that present the danger of driving wealth and income into the ground or into avenues of escape.

In some circles it has often been announced that the Budget cannot be balanced until there is greater business recovery. If that be a correct

thesis it can as well be said that a Budget balance should be attained through maintenance of present rates of income taxes, and awaiting the larger income and Government reserves that will accompany greater business activity. My purpose here is to focus attention upon the extent to which the yields from the corporate and individual income taxes have decreased by reason of the shrinkage of the taxable income and at the same time to demonstrate that some broadening of the tax base through increase of taxable income is now being experienced. In other words, when we consider new proposals, let us use as a background the things that are being accomplished now, the effect of our present laws.

In the fiscal year 1927 the Government received from the corporation income tax \$1,300,000,000 and almost the same amounts in the fiscal year 1928, 1929, and 1930. In 1931 it received about \$1,000,000,000 dropping to about \$600,000,000 in 1932, to less than \$400,000,000 in 1933, and to \$400,000,000 in 1934. It appears to have run in the fiscal year 1935, just closed, about \$572,000,000—an increase, 1935 over 1934, of 43 percent.

If we compare the yield of the corporation income tax in the first 6 months of this calendar year with a similar period in other years, we find that for the 6 months ended June 30, 1935, it produced \$337,000,000 in contrast to \$232,000,000 in the same period in 1934; \$180,000,000 in 1933, and \$250,000,000 in 1932. It is to be noted that the yield of the corporation income tax the past 6 months was 62 percent greater than in the corresponding period of last year and 87 percent greater than in 1933.

On the same basis, namely, of the first 6 months of the calendar year, the individual income tax collections this year amounted to \$342,000,000 which contrasts with \$266,000,000 in the first 6 months of 1934, \$222,000,000 for 1933, and \$189,000,000 for 1932. It is to be noted that the yield of the individual income tax in the past 6 months was 29 percent greater than in the same period last year and 80 percent greater than in 1933. Noting that there has been some increase in the rates affecting individual incomes, the proportion of the greater yield that is due to increased rates in contrast to increased volume cannot be determined through the lack of official figures as yet, but other computations indicate a considerable increase in the volume of individual incomes in 1934 upon which taxes have been paid in the past 6 months. That, we want to show to you, is the way out as far as obtaining increased revenue for government needs is concerned.

If these comparisons be made on the collections for a single month, it is to be noted that taking the month of June, just closed, in 1935, the corporation income tax collections were \$135,000,000 as compared to \$97,000,000 in 1934; \$72,000,000 in 1933; and \$96,000,000 in 1932. Similarly in June 1935 the individual income tax collections were \$117,000,000 as compared with \$89,000,000 in 1934, \$44,000,000 in 1933, and \$64,000,000 in 1932. I am putting considerable emphasis on these figures. It may be tiresome, but it is information on which we rely to put forward our point, the point that we want you to consider—that is, the possibility of obtaining greater revenues from greater incomes.

Taken together the corporation and individual income taxes produced in the fiscal year 1935, just closed, \$1,099,000,000; in 1934,

\$817,000,000; in 1933, \$747,000,000; in 1932, \$1,057,000,000. It will be observed that the last fiscal year shows an increase in the yield from the income taxes of about 35 percent over 1934 and 47 percent over 1933.

Taking the collections in the past 6 months from the corporation and individual income taxes and comparing them with previous years, we observe that in the first 6 months of 1935 the receipts were \$679,000,000; in 1934, \$498,000,000; in 1933, \$402,000,000, and in 1932, \$439,000,000. The past 6 months show an increased over the same period last year of 36 percent and over the same period of the previous year, 1933, of 69 percent.

Taking the month of June alone, the combined yields of these income taxes were \$252,000,000 in 1935; \$186,000,000 in 1934; \$116,000,000 in 1933, and \$160,000,000 in 1932. The increased yield of corporation and individual income taxes in June this year over last year was 30 percent, and over 1933, 117 percent.

In the fiscal year just ended, June 30, 1935, the total receipts of the Government amounted to 3.8 billion dollars. This amount is more than five times the total expenditures incurred in any of the fiscal years 1914, 1915, or 1916, and is sufficient to have paid all expenses in each of the fiscal years 1922-23-24-25-26-27-28, and in some of those years would have left a sizable surplus. In 1929 there would have been a small deficit of \$48,000,000.

The need is not new and higher taxes but more national income to tax and reduction of expenditures to a more normal level.

Recent experience demonstrates that, in the absence of income and activity, increased rates and new taxes cannot produce as much revenue as smaller rates applied to, and conducive to, a larger tax base. In 1930, with a maximum surtax rate of 20 percent, a maximum estate tax rate of 20 percent, 11 percent corporate income-tax rate, and with only a limited number of excises, the Government collected from these sources over \$3,000,000,000 in revenues. In 1935, however, with a maximum surtax rate of 59 percent, a maximum estate tax rate of 60 percent, a corporate income tax rate of 13¾ percent on most corporations, and with a host of additional excises, these same sources yielded the smaller amount of 2.7 billion dollars.

In our judgment, therefore, the determining factors in producing revenues are not high rates—certainly not very high rates—but the amount of taxable incomes and the volume of taxable business activities.

The present forms and rates of taxes will quickly produce very much greater revenues if business activity is restored. They will produce little, if any, additional revenues if business activities are not restored. The effects of the proposed taxes upon individual enterprises and corporate endeavor will be a big factor in deterring the restoration of taxable income.

In other words, it is a well established fact that high tax rates may defeat the purpose of producing more revenue. There is a widespread belief that present income tax rates, corporate and individual combined with the methods of levying them, are passing the point of maximum productivity and increased rates, especially of the types suggested, may progressively diminish returns. In view of the shrunken incomes of corporations and individuals, the losses yet to be recouped and the present methods of imposing taxes, the rates and

effects of the tax policies now in force already bear too heavily upon the types of personal and corporate enterprises that must be depended upon to produce recovery.

In the official estimates that have been submitted it is not apparent that allowance has been made for the fact that high taxes on corporate profits and upon bequests will decrease the base of the personal income tax and lessen revenues from that source for the future. Higher rates on the great volume of corporate income would mean curtailment of the amount received in dividends by stockholders who, in many instances, pay their income taxes at a higher rate than do the corporations. In 1932, for instance, the latest year for which data are available, individuals who paid on their incomes a higher rate than the corporate income rate reported dividends amounting to about 82 percent of their total income. Transfer of increased amounts of taxable income from the high individual rates to the corporate rates would obviously decrease revenues.

The proposed rates in amount and form would also discourage incentive to apply ability to income-producing activities and thus further decrease the yield from taxes from both corporate and individual incomes.

The disturbing and harmful nature of the suggestions is apparent when it is observed that they are based on the idea that the large enterprise, estate or income should be taxed heavily merely because it is large, without sufficient attention to preservation of the tax base, and to the utility or economic value of aggregations of capital or sizable incomes. This proposal should not be for this year alone, but something that goes to fundamentals of the tax system, to the revenues for the coming year and for the years thereafter.

Consideration also should be given to the extent to which the suggestions we are discussing would tend toward Federal monopolization of revenues to the detriment of State budgets. The Federal Government already has gone far in the direction of such monopoly. Higher personal and corporate income taxes would seriously limit the possibility of States obtaining revenues from these sources. The Federal Government has greatly extended the number of excises, including the prolific gasoline tax which had previously been left entirely to the States. The inheritance tax, which heretofore has been regarded as peculiarly belonging to the States, would reduce the possibility of future State revenues from death dues. Such tendency is particularly important at the present time when the Federal Government is insisting that the State and local subdivisions assume or prepare to assume a larger part of the relief expenditures. And in this connection you will note—and I am sure you gentlemen are aware of it in your home States—the real difficulties now encountered by State administrations to obtain sufficient revenues to balance their State budgets, to say nothing of the local municipal budgets.

You have no doubt observed a reluctance, to put it mildly, on the part of States to take over the care of unemployables, in accordance with the stated program announced by the President that the one and a half million, or so, unemployables should be supported by States and local communities. But I have not observed any move in that direction on the part of States, and the reason is that they are having their own fiscal difficulties in finding methods of raising revenues for the support of their State governments, to say nothing of taking over

this load which, temporarily at least, has been placed on the back of the National Government.

There is another aspect of general importance. It is widely recognized that there is need of simplification and clarification of our revenue laws. The suggestions now under consideration would add complexities to the rate structures and to the forms of taxes which would prove more difficult of administration, and of compliance by the taxpayer, than those already being levied by the Government.

There has been much reference to social justice. To a group of men composed of able attorneys, experienced legislators, and fair-minded individuals, it is hardly necessary to indicate that society is an aggregate of individuals, and therefore that the fundamental basis of social justice must be justice to the individual. If through taxation or other governmental action there be confiscation—outright or near—of the economic rewards of enterprising and prudent citizens, injustice must result. The ends of social justice cannot be furthered by aggravating or multiplying individual injustices. And, I might add, by destroying the ability of private enterprise to employ men. That, as we see it, is the great problem, the practical problem at this time.

Ability to pay is the fundamental basis of income taxation as developed in this country. The application of this principle excludes anything even bordering upon confiscation; the concepts are the antitheses of each other. The correct application of the principle of ability to pay means sustaining rather than destroying such ability. Similarly, application of the principle of ability to pay leaves no room for the so-called "benefit theory" of taxation which it apparently has been erroneously assumed has been recognized in public policy relating to income and inheritance taxes.

There is one other general aspect that has been inadequately presented to your committee, we feel. That relates to the relative burdens of taxation in this country and in England. That has been referred to before your committee, so we thought it proper to refer to it further. The fact that one country may be driven to exceedingly heavy taxation is hardly a reason why this country should imitate it. Nor is it clear indication of our ability to imitate it, even if that were desirable.

Various of the comparisons are on a very unfair basis and give erroneous impressions. The British have no taxing jurisdictions levying such heavy taxes as do our State and local units of government. The taxes collected by the British Government represent a much larger proportion of the total taxes than do the Federal taxes in this country. Comparisons, moreover, are ordinarily made of two taxes only—income taxes and death taxes. It would be equally fair to make a comparison of our general property taxes and the British so-called "rates", namely, the tax levied by local communities in that country, and by this process show that Americans are taxed much heavier than are the British.

Even the comparisons made upon incomes and estates, which are not set forward on a wholly fair basis, indicate that the larger incomes and larger estates are now taxed as much or even more in this country than they are in England. Addition of the proposed increases of taxes upon larger incomes and upon the death dues on large accumulations would make the impact of the taxes appreciably greater than they are

in England. In the comparisons of corporation income taxes there is failure to recognize that tax policies and administrative procedure in Great Britain, such as the right to carry losses forward, the method of determining true net income, particularly of taxing or exempting capital gains, the prompt and final adjustment of tax liabilities, and many other provisions, mean a much lesser impact of the corporation income tax in England than a mere comparison of the rates would suggest. Besides, in that country there are not the multiplicity of income, franchise, capital stock, excise and other taxes bearing upon corporate enterprises that are levied by the States and the Federal Government in this country and to which it is now proposed to add new, and, in our judgment, inequitable and impracticable burdens. Furthermore, let me point out that the tax burdens in Great Britain bearing upon business enterprises, when its budget is balanced and there is expectation of reduction in the rates as business improves, present an entirely different situation than we are struggling with at the present time in this country.

Another thing that occurs to me: For many years it has not been the policy of our people to compare tax rates or wage rates or anything else with Great Britain. We have taken pride in the fact that we are in a better position than they, and it seems to me to be a retreat now to try to take advantage of an argument which would indicate that we are no worse off than Great Britain.

It remains for me to make some observations directly upon the proposal of a graduated tax upon corporate income and the proposal to tax dividends received by corporations.

It is proposed to tax corporate earnings by rates graduated solely according to size of income.

The suggestion of a graduated tax rate on corporate income is not new. It has frequently been proposed in the Congress. With the exception, however, of some very minor deductions allowed in computing taxable income in some of the earlier revenue acts, Congress has uniformly rejected this method of taxing corporate income.

A business corporation is merely a legal entity through which a group of individuals may carry on an enterprise on a cooperative basis. A tax upon corporate profits is simply a tax upon the stockholders collected at the source.

The CHAIRMAN. The gentleman has consumed 30 minutes.

Mr. CLAUSEN. Then I will hurry through, Mr. Chairman, the remainder of my statement.

Mr. TREADWAY. How much additional time would the gentleman want?

Mr. CLAUSEN. I need about 10 minutes.

Mr. HILL. I understand the witnesses from the chamber of commerce are dividing the time among themselves.

Mr. COOPER. Allow me to observe that the gentleman's manuscript covers 20 pages. He has just finished 10 of them. That would indicate that he would need as much more time to finish the balance of his statement.

Mr. CLAUSEN. I would if I read all of the manuscript, which I do not intend to do.

Now, there are things to be said on the corporation tax rate. I assume they have been discussed with you by those who have appeared on this proposition before you.

As business men, we are deeply concerned about it and its effects—about the fundamental issue involved in dealing with income-tax rates on a graduated basis, so far as corporation taxes are concerned.

I should just like to make this observation. I happen to be engaged in the manufacture of farm machinery. Since September 1933 I have been acting as administrator of the code for our industry.

I have observed some very interesting things in that connection, and when you speak about the disadvantage of bigness, I think an illustration of that business alone will prove my point.

If you go back 15 years, when tractors were introduced on farms in this country and consider what has happened in the intervening years down to the present time—when you find the development of that kind of power for the use of the agricultural sections of our country and of the world—you will see what bigness means.

Tractors today are costing the farmer half as much as they did then. They are much different and much better and more efficient machines, and they will do many more things than the original tractors would do.

I want to assert to you gentlemen that unless there were large resources for engineering, for research, for experimental work, and for the purchase of equipment to produce these in volume, the development of the tractor on the farms of America today would have been impossible.

I call attention to the fact that the farm-equipment industry maintains itself against the competition of the world without any tax on imports of farm machinery into this country. We do it because we have the ability to design and make in volume, through large institutions, this equipment, as against the lower labor costs in foreign countries and also in Canada. Size is important. Volume is necessary.

I mentioned the tariff, sir, incidentally. But it indicates that when you try to disturb the natural development of large units of industry, with the economies that are produced through the ability to put in machinery for low-cost production, you disturb the ability to put those products into the hands of the consumer—in this case the American farmer—at lower costs, considering the working abilities of the machines that are produced. You can see what the effect of that would be, if you destroy these big units that are talked about.

Another element that is particularly interesting to me, in my code activities, is this: We divided the six hundred-odd companies in our industry under the code into four classes. Class A were institutions having over \$5,000,000 capitalization; class B were those companies having a capitalization from \$1,000,000 to \$5,000,000; class C from \$100,000 up to \$1,000,000; and class D, below that amount. Interesting figures developed when we obtained reports from these companies as to the wages paid in these various companies, according to the size of the institutions.

We found that in class A, the large companies, the average rate of earnings in June 1934 was 60.2 cents an hour. In class B companies, the rate was 52.8 cents an hour. In class C, 47 cents; and class D, 44 cents.

The figures for 1935, which we are now accumulating, will show even a better average and a higher rate for the larger companies.

I am sure, gentlemen, that when the American farmer and the American laboring man understand the impact and effect of reducing the size of our industrial units, upon the ability to pay wages, and

upon the ability to produce at reasonable costs, they will be alarmed, as we are alarmed, at the effect of this proposed legislation.

The only defense for a Federal income tax on corporate profits is the practical one that it is a relatively easy method of collecting large amounts of revenue.

The proposed tax is now being advocated as though it were application of the ability to pay principle. As a matter of fact, it may run directly counter to this principle. Take, for example, two corporations: The first one has a capital of \$800,000,000 with earnings at 1 percent amounting to \$8,000,000. Another corporation has a capital of \$600,000 with earnings at 20 percent amounting to \$120,000. Under any of the schedules submitted, the first corporation with its very small percentage of earnings would pay at a higher rate than the second. That the second corporation can better afford to pay a higher rate cannot be denied; yet exactly the reverse occurs.

Almost any form of a graduated corporate income tax ignores capital investment and therefore ignores every accepted principle of income taxation.

It is the larger corporations, which it is now proposed to penalize by a higher tax rate, that employ the great mass of wage and salary earners of the country. In the manufacturing industry, for which data are available as of 1929, establishments with an annual output of \$500,000 or less, representing nearly 90 percent of the total number of plants, employed but 29 percent of the total number of workmen. Establishments with an annual output between \$500,000 and \$1,000,000 represented less than 5 percent of the total number, but employed approximately 13 percent of the labor. Establishments whose annual production exceeded \$1,000,000 represented less than 6 percent of the total number of manufacturing units, but employed 58 percent of the total number of wage earners. To put it another way, units representing 10 percent of the total number of establishments engaged in manufacturing employed over 70 percent of the total wage earners in the industry. Because of the necessity of large capital and in harmony with the modern methods of doing business, all, or practically all, of the larger establishments mentioned above are corporations. Any limitation arbitrarily placed on the activities of these larger corporations will have serious repercussions on employment.

An examination of the data relating to volume of employment, wages, and financial stability in fields of enterprise in which large business units exist, discloses more desirable conditions from a public viewpoint, than in most industries dominated by numerous small units. Records of code authorities under the National Industrial Recovery Act clearly indicate that, speaking generally, higher wages are paid by the larger corporations on either an hourly or piece basis. Also, it is these corporations, again speaking generally, that because of their resources are able to maintain pension plans, old-age and sick benefits, and extend other assistance to employees and former employees.

During the depression the corporations gave employment to a great number of wage earners to carry on current operations. In addition, in order to relieve the hardships of unemployment, they also paid out large amounts to employees whose services were not actually needed to carry on current operations. A conservative estimate is to the

effect that during the 3-year period 1930-32, when the depression reached its lowest point, the manufacturing industry alone, on its own initiative, paid out annually over 1.2 billion dollars, or a total of more than 3.6 billion dollars, to workmen in excess of amounts actually needed to carry on current operations. During the 5-year period 1930-34, the total average excess compensation paid to employees by manufacturers amounted to more than 1.1 billion dollars annually, or a total of approximately 5.8 billion dollars. The contribution to relieve unemployment by the manufacturing industry alone exceeds the amount paid out by the Government for public works and direct relief, the two forms of Government expenditures designed most directly to relieve unemployment.

While no exact data are available, it is known that, in addition to the amount paid out by the manufacturing industries, large sums were also provided by numerous other lines of business to relieve unemployment. Amounts of such magnitude could only be paid out by well established corporations. Had it not been for the aid thus extended, the unemployment situation would have been much worse.

Many business enterprises can only be carried on with any degree of proficiency by corporations with large assets. The railroads and telephone are among the outstanding examples of this. Many of you can undoubtedly remember when the telephone in your community was a local affair owned by an individual or a small corporation with limited capital. If there were two such companies, as was not unusual, then you had to install two phones and pay two bills in order to have service. When you wanted long distance, instead of putting in the call from your office or home phone, you probably had to go down to the corner drug store where, after a period of waiting, special arrangements could be made for long-distance connections.

Eventually many of these smaller companies were combined into larger corporations. Later, in order to provide the service which we now demand, the local units were taken over by a very large corporation with capital of corresponding size, or arrangements were made whereby the local communities could connect with it. The railroads, originally built piecemeal by relatively small companies, were similarly forced, in order to give service, to combine into large corporate units with heavy capital. Efficiency and the need to reduce costs compelled the automobile industry, at first carried on by small units, to form large corporate organizations.

In various fields of business enterprise the proposed graduated tax would penalize corporations, which, in order to give efficient service, were compelled to become large.

For some time prior to the depression, corporations were steadily pursuing the policy of reducing their bonded indebtedness and other borrowings, and obtaining their capital from stock issues. And on that point, under a proposition of this kind, the incentive will be to go into the other direction. The wisdom of this policy has been well demonstrated during the depression. Fixed charges were thus materially reduced or eliminated and corporations were able to maintain their solvency even in the face of deficits. The income-tax law provides, and properly so, that interest payments are to be deducted in computing taxable income as part of the cost of doing business. Under the proposed graduated plan, in order to avoid the higher

brackets, there would be strong inducement for the corporations to resort to borrowings in the form of bonded indebtedness or other forms. By Government action a sound and conservative business policy would be penalized. If larger corporate borrowings were resorted to, in case of another depression, the corporations faced with the necessity of meeting heavy fixed charges would be unable to weather the storm, bankruptcies would be increased and the economic structure of the country shaken more seriously than it has been during the past few years.

There does not appear to be a real appreciation of the amount of taxes now imposed on corporations. The States are levying numerous taxes, such as income taxes, capital-stock taxes, franchise taxes, and various other excises and special types of taxes. For several years prior to the depression, the corporations paid to the Federal Government in income taxes alone over a billion dollars a year. While the absolute amount of this tax decreased during the depression years to 400 millions dollars in 1934 and about 572 million dollars in 1935, the ratio which the tax bears to the total net earnings of corporations has increased, due to the increase in the rate from 12 percent in the 1928 Revenue Act to 13 $\frac{3}{4}$ percent in the 1932 and 1934 acts. The last act also increased the rates on the income from most railroads to 15 $\frac{3}{4}$ percent.

In addition to the direct taxes paid by corporations to the Federal Government, there have been levied numerous excises on various forms of business activities. In 1929, and the years immediately preceding, these excises annually yielded less than 100 million dollars. Later the number of excises was markedly increased and during the fiscal year 1933, in the midst of the depression, excise collections amounted to over 300 million dollars; in 1934, they exceeded 450 million dollars. The excises included in these figures are only those levied on business operations and do not include various other excises of which business pays its share, but which may bear less directly on it, such as those imposed on tobacco, liquor, telephone and telegraph, and others.

Corporations do not, of course, bear the whole burden of these excises. Some portion is passed on to the consumer and a relatively small part is paid by noncorporate taxpayers. Since, however, so much of the business and industry of the country is carried on by corporations and since under market conditions which prevail in depression times it is difficult to pass on taxes, it can be fairly stated that the corporations have actually absorbed a very appreciable part of the excises mentioned above.

I want to call to your attention the fact that there will soon be enacted, after the conference committees have finished, a social-security bill which will levy a tax on business corporations—on those employing labor—representing a substantial increase over the taxes now paid by corporations and which reach over a billion dollars. It is estimated that to meet its provisions employers in 1936 will be required to pay to the Federal Treasury about 225 million dollars; in 1937, about 780 million dollars; and in 1938, about 1 billion dollars. The amount will steadily increase until it reaches about 2 billion dollars annually. Since the corporations are the large employers of labor in this country, much the greater portion of this tax will necessarily be paid by the corporations with great uncertainty as to their ability to pass it on.

All the schedules, in addition to graduating the corporate income tax, would also increase the total of such taxes, the estimated yield from the various schedules ranging from 66.9 million dollars to 102.2 million dollars. Class I railroads alone, it is estimated, would have their taxes increased more than 25 percent as compared with those paid in 1930.

In view of the present heavy Federal taxes on corporations and the exceedingly heavy additional taxes which will shortly be placed on them under the provisions of the social-security legislation, plans should now be made to reduce rather than increase the income tax on all corporations.

I wish also to call your attention to the stake which the Government has in this matter. The Government has made vast loans to corporations. As of March 31, 1935, the latest date for which information is available, the Government had outstanding loans of approximately 380 million dollars to railroads; advances to banks amounted to about 1.1 billion dollars; to insurance companies approximately 52 million dollars; and to mortgage-loan companies about 152 million dollars. In addition, there are various other miscellaneous loans, making total loans and advances to corporations about 1.7 billion dollars. Interest on this amount at 5 percent would equal 85 million dollars. This is 15 million dollars less than the increase in taxes indicated in two of the schedules now before your committee. Money paid in taxes will not be available to pay interest or principal charges on obligations due the Government.

Those having the most vital interest in corporation taxes are the stockholders. Money which goes to the Government in taxes cannot go to the stockholders in the form of dividends or to strengthen their properties which may be financially weak. The number of individuals owning corporate stock is large, the estimates varying from $3\frac{1}{2}$ to 6 millions. Speaking generally, the larger the corporation, the larger the number of stockholders. In one corporation the number of stockholders exceeds the population of the city of Washington and no stockholder owns as much as 1 percent of the total shares. In practically all the large corporations, no individual owns more than a small fraction of the total number of shares.

According to official statistics, in 1932 but 356,000 people reported net income in excess of \$5,000 and in 1933 the corresponding figure was, according to preliminary reports, 320,000. Since the number of stockholders so greatly exceeds the number reporting net income in excess of \$5,000, it is obvious, and confirmed by general observation, that many people of very moderate means are owners of corporate shares.

Further examination of the statistics affords additional evidence of the distribution of corporate dividends to people of small incomes. In 1930 the dividends paid by corporations amounted to 8.2 billion dollars, of which about 2.6 billion dollars was received by other corporations, leaving a balance of 5.6 billion received by shareholders other than corporations. The personal income tax returns of that year show that those who made returns, but not necessarily paying taxes, received in dividends 4.2 billion dollars. In other words, 1.4 billion dollars was received in dividends by parties that for various reasons did not file returns. For every \$3 received in dividends by

individuals filing returns, at least \$1 was paid recipients not filing returns. Nearly all of these latter obviously did not file returns because of incomes so small as not to be subject to the Federal income tax. It may be well to recall here that the law requires every single individual with a net income of \$1,000, every married individual with a net income of \$2,500, and every individual with a gross income of more than \$5,000, to file returns.

Because of their limited incomes, from necessity the amount paid to this great mass of small stockholders must be spent largely for living expenses, rather than saved for capital purposes. Consuming power, so essential to recovery, is thus increased by the distribution of dividends. These hundreds of thousands of small stockholders, scattered throughout the country, whose incomes from dividends have already been seriously reduced, will have their incomes still further decreased because the Government has levied new and heavier taxes on corporate profits.

It is also proposed to levy taxes on dividends received by one corporation by another. While this proposal is urged as a means of preventing avoidance of the higher income rates, it is also apparently designed to discourage generally the ownership of one corporation by another. As is well illustrated by the railroads, the conduct of an enterprise in a reasonably efficient manner frequently leaves no alternative to the control of one corporation by another through stock ownership.

In some lines of business, in order to operate within a State, it is necessary to have a charter under the laws of that State and the only method whereby the essential unity of control can be obtained is for one corporation to own stock in various subsidiaries.

Existing conditions cannot be ignored. Tax methods which tend to destroy useful corporate relations or to break up the present larger corporations which now employ the great mass of wage earners will lead to serious and enduring dislocations. There would be loss of both production and employment and recovery further delayed.

It is, of course, obvious that smaller corporations serve a very useful function in carrying on the business of the country and presumably will continue to do so. It is to be noted that a differential in favor of small corporations has been secured in the past by allowing an exemption in computing taxable income. This provision was eliminated in the 1932 Revenue Act, but it would seem that consideration might well be given to a return of this method if it is desired to lighten the burden on the smaller corporations.

It is to be observed, however, that the proposal is not limited to taxing the dividends received by a corporation owning most of all or the stock of another but applies to any holding of stock, no matter how small in percentage. Interest in the stock of another corporation may be taken to increase the business opportunity of both, to strengthen a wholesaler, distributor, or other outlet, or to support a supplier of a raw material or for other legitimate reasons.

The proposal to tax 15 percent of the dividends paid by one corporation to another would yield, it is estimated, but 39.7 million dollars annually. Computation, however, leads to the conclusion that even this relatively small amount cannot be attained if the tax is levied in a fair manner. In order to arrive at the 39.7 million dollars, it is apparently necessary to tax at the full corporation income-tax rate, 15 percent of all dividends received by one corporation from another regard-

less of whether the receiving corporation has any net profits to tax. Or, to state it in a more concrete manner, a corporation having a net deficit of a million dollars, although it received 1 million in dividends, would be obliged to pay the full corporate income tax on \$150,000. Such a basis for imposing a tax is a perversion of the whole theory of the income tax which permits a tax only on profits. If the tax were levied on a legitimate basis—that is, only when the receiving corporation has a net taxable income—the yield of the tax under the present corporate rate would be materially less.

A tax which would have such seriously disturbing effects on our whole economic organization and yielding such a relatively small amount cannot be regarded as a tax designed to produce revenue, the question with which your committee is concerned.

I will not impose further upon your time, or upon the time of my colleagues who follow me.

I think if we are going to be consistent as a Government, in order to follow out the praiseworthy effort of our administration in obtaining reemployment for the unemployed men in this country, Congress cannot enact legislation of this kind without defeating that program.

For example, the durable-goods industry has been the source of most of our unemployment, as you well know. The market for durable goods is better today. The machine builders are having a little spurt. That increased business comes from large units who are able to buy their equipment. But when you press down the size of units, the durable goods industries will suffer with them and there is no "out" as far as reemployment is concerned in that direction.

High taxes have never paved the way to prosperity, and they cannot do it now.

I thank you.

The CHAIRMAN. The gentleman has consumed 40 minutes of his time.

Mr. TREADWAY. If questions are asked of this witness now, will that deprive these witnesses of their allotted time?

The CHAIRMAN. Of course not.

Mr. TREADWAY. I would like to ask just one or two general questions. In the early part of your remarks you indicated that you did not consider, and evidently the committee does not consider, that this is any complete tax program.

I judge that you would prefer that this subject matter be given careful and definite consideration, the general broad question of meeting the expenditures of government, taking sufficient time and including as far as practicable a complete program.

Mr. CLAUSEN. Yes, sir.

Mr. TREADWAY. Am I correct in that inference?

Mr. CLAUSEN. You are correct, and I am sure that business generally will not be satisfied with any other kind of consideration of a matter which has such serious effect.

Mr. TREADWAY. Which method of procedure would business, such as you represent—large manufacturers and large corporations—prefer, in your opinion? Increased taxation as indicated in this so-called "partial scheme", I call it a drop in the bucket only, but that may be just an outside expression; surely, it is only a partial program, is it not?

Mr. CLAUSEN. That is the way we look on it.

Mr. TREADWAY. Which method would your people prefer, a very material increase in some kinds of taxation or a decrease in Government expenditures?

Mr. CLAUSEN. We feel that with a decrease in Government expenditures, rationally planned, and with the increased confidence that will result from improved fiscal conditions, the Government will get sufficient revenues for its purposes.

Mr. TREADWAY. Do you not feel also that business executives whom you have referred to are fearful of existing conditions, and that those conditions are hampering them, and very definitely so?

Mr. CLAUSEN. Of course, confidence, courage, and capital are the mainsprings of business improvement, and when those are interfered with or retarded they are bound to interfere with recovery of normal employment and industry.

Mr. TREADWAY. Are not confidence and courage—what was the other word?

Mr. CLAUSEN. Confidence, courage, and capital.

Mr. TREADWAY. Are they not hampered by the present outlook, either as to expenditures or methods of taxation?

Mr. CLAUSEN. I would say that we are very much embarrassed and very much worried as to the import of the program proposed.

Mr. TREADWAY. Then you feel that business enterprise, upon which we must ultimately rely to bring about normal conditions throughout the country, is seriously retarded by the methods under which we are proceeding?

Mr. CLAUSEN. With this proposition to increase taxes based on distribution of wealth or income and the reduction of the size of institutions, yes.

Mr. TREADWAY. Just one other question. We bandy words a good deal. We have heard a whole lot about social security and various things of that kind recently.

This tax program is either to reduce the public debt in a very small way, to meet these extravagant expenditures, or, if the financial feature is not included in the picture, then there is some social scheme, some social aspect, I think were the words you used. What is it? It is a nebulous sort of thing to me. I do not know what it is. I would like to have your notion of it.

Mr. CLAUSEN. This is what I understand from the notion of business men generally, that the proposition before you now—and of course that does not mean that the Ways and Means Committee or Congress will accept that—but the proposition before you, as given by the President's message, indicates that this is a social-reform program which has for its culmination the reduction of individual capital in the hands of any one individual, and the reduction in the size of business corporations. We feel that this goes to the fundamentals of the conduct of the American system of business.

Mr. TREADWAY. Reduction in the size of corporations?

Mr. CLAUSEN. Yes, sir.

Mr. TREADWAY. Where would that lead?

Mr. CLAUSEN. It would lead to the reduction of employment, to employment at lower wage levels, and to a higher cost of the products of industry.

Mr. TREADWAY. What effect would that reduction in the size of corporations have, for instance, on a big concern like the Ford plant?

Mr. CLAUSEN. My answer to that would be that in the development of the automobile industry you will find that the smaller units would be unable to compete with the larger ones and thus fall by the wayside. That all comes from volume production and ability to produce at lower costs and sell at lower prices.

Mr. TREADWAY. And ability to produce must have originated in somebody's brain?

Mr. CLAUSEN. That is the start of it.

Mr. TREADWAY. Is this to be a leveling down of mentality, from the smarter man at the top, pushing him down and pushing the less clever man up? Is that the theory behind the social aspect of the President's proposal?

Mr. CLAUSEN. I will not attempt to say, but I am afraid that would be the result.

Mr. TREADWAY. So that if one man has greater ability to develop an enterprise, he is to be put down on the other man's level because the other man has not the same capacity and mentality? Am I right about that, from your viewpoint, or conception of the situation?

Mr. CLAUSEN. Speaking personally, I am afraid that will be the result.

Mr. TREADWAY. Did you read in yesterday's paper an interview with Mr. Henry Ford?

Mr. CLAUSEN. Yes, I did.

Mr. TREADWAY. You perhaps approved of his statement that really there is not any such thing as wealth, in dollars and cents.

Mr. CLAUSEN. I gathered that his statement was to the effect that wealth was not in cash.

Mr. TREADWAY. Except in the Federal Treasury, where it is not doing anybody any good.

Mr. CLAUSEN. It is in buildings and equipment, and in inventories, mostly.

Mr. TREADWAY. From that statement I drew the conclusion that there were not very many concerns that could liquidate, or even meet the additional burdens of taxation without a serious handicap to their business, if forced by the Government to do so.

Mr. CLAUSEN. That is one of the things businessmen fear, the effect of compulsory liquidation that would result from the imposition of these indicated taxes.

Mr. TREADWAY. Carrying that Ford interview to its natural conclusion, I felt that if the Ford corporation was obliged to liquidate, perhaps each one of us might get a flivver. Would that be about the outcome, do you think?

Mr. CLAUSEN. I think if the business were to be kept as a going concern and liquidated the Government would have to be a partner in it, and perhaps a major one.

Mr. TREADWAY. That may be the explanation of this whole program, of Government in business. I am terribly fearful that it is, but some of my Democratic colleagues perhaps would not agree to that. But where else are we going, in this program of social justice, or social whatever you are a mind to call it; where are we headed toward?

Mr. CLAUSEN. That is a thing that is concerning businessmen, and, I presume, all citizens.

Mr. TREADWAY. In other words, I have just touched in a very imperfect manner on the attitude of business today toward this whole governmental program, the fear of business and the lack of confidence, and lack of courage. I notice that you are very guarded in your expressions, but the trouble is that men like yourself in business do not know what the outcome of this program is to be, whether or not you are going to continue in business or the Government is going to take the business over.

Mr. CLAUSEN. What we fear is that there is not sufficient understanding of the problems that lie back of the successful conduct of a business enterprise.

Mr. TREADWAY. By whom?

Mr. CLAUSEN. As was indicated by the implications of some of these propositions that have been advanced.

Mr. TREADWAY. You feel that the propositions are being advocated by what has been definitely regarded as the Brain Trust, and that the brain trusters, or busters, or whatever they are, are not business men; they have not had your experience, have they?

Mr. CLAUSEN. I think business men generally are not much concerned as to the Brain Trust or anything else; it is the result of the conduct of Government affairs that they are mostly concerned in, regardless of who is in power, or what party it is.

Mr. TREADWAY. Let me finish my questions with this thought. Am I right in inferring from your guarded language that these movements you speak of as perhaps being immature—did you use that word?

Mr. CLAUSEN. I did not use that word.

Mr. TREADWAY. Whatever it was—that they are not thought out and considered and are liable to leave proper business enterprises in a very bad way; is that the chief fear?

Mr. CLAUSEN. There are those implications involved.

Mr. TREADWAY. Indications, or implications, or both?

Mr. CLAUSEN. There are implications involved of that kind in some of these propositions.

Mr. TREADWAY. And indications, perhaps?

Mr. CLAUSEN. I would even go that far.

Mr. COOPER. Mr. Clausen, I want to ask you a few questions based on the statement you have made to the committee.

I believe you take the position that business conditions are now improving?

Mr. CLAUSEN. Yes, sir.

Mr. COOPER. Throughout the country?

Mr. CLAUSEN. I think we are on the upward trend of the cycle.

Mr. COOPER. On the upward trend of the cycle in business conditions generally throughout the country?

Mr. CLAUSEN. Yes, sir.

Mr. COOPER. That is very clearly shown by the figures given by you in your statement here.

I assume you will agree that the payment of income taxes reflects the condition of business throughout the country.

Mr. CLAUSEN. They are bound to.

Mr. COOPER. That is a fair barometer to which we may look for some guidance in arriving at a conclusion.

Mr. CLAUSEN. It ought to be a good barometer.

Mr. COOPER. I observe in your statement that beginning in 1927 there was a gradual and steady decline in business conditions throughout the country, as reflected by income tax returns.

Mr. CLAUSEN. Not from 1927; no, sir.

Mr. COOPER. I read from your statement, sir:

In the fiscal year 1927 the Government received from the corporation income tax \$1,300,000,000, and almost the same amount in the fiscal years 1928, 1929, and 1930.

Mr. CLAUSEN. Yes.

Mr. COOPER. Continuing reading from your statement:

In 1931 it received about \$1,000,000,000, dropping to about \$600,000,000 in 1932, to less than \$400,000,000 in 1933, and to \$400,000,000 in 1934. It appears to have run in the fiscal year 1935, just closed, about \$572,000,000—an increase over the previous year of 43 percent.

Mr. CLAUSEN. Yes, sir.

Mr. COOPER. Then on the question of the corporation income-tax return, according to your statement, the yield in the past 6 months was 62 percent greater than in the corresponding period of last year, and 87 percent greater than in 1933.

Then, continuing quoting from your statement:

The individual income-tax collections this year amounted to \$342,000,000, which contrasts with \$266,000,000 in the first 6 months of 1934, \$222,000,000 for 1933, and \$189,000,000 for 1932. It is to be noted that the yield of the individual income tax in the past 6 months was 29 percent greater than in the same period last year and 80 percent greater than in 1933.

Then, continuing further from your statement:

If these comparisons be made on the collections for a single month, it is to be noted that taking the month of June, just closed, in 1935, the corporation income-tax collections were \$135,000,000 as compared to \$97,000,000 in 1934; \$72,000,000 in 1933, and \$96,000,000 in 1932. Similarly in June 1935, the individual income-tax collections were \$117,000,000, as compared to \$89,000,000 in 1934, \$44,000,000 in 1933, and \$64,000,000 in 1932.

Taken together the corporation and the individual income taxes produced in the fiscal year 1935, just closed, \$1,099,000,000; in 1934, \$817,000,000; in 1933, \$747,000,000; in 1932, \$1,057,000. It will be observed that the last fiscal year shows an increase in the yield from the income taxes of about 35 percent over 1934 and 47 percent over 1933.

Then, continuing further from your statement:

Taking the month of June alone, the combined yields of these income taxes were \$252,000,000 in 1935, \$186,000,000 in 1934, \$116,000,000 in 1933, and \$160,000,000 in 1932. The increasing yield of corporation and individual income taxes in June this year over last year was 30 percent, and over 1933, 117 percent.

Now, of course, these figures you have given us are accurate and reflect the general trend of business conditions.

Mr. CLAUSEN. Yes; as far as corporations are concerned. Of course, the element of changed rates in individual income tax returns would be involved there.

Mr. COOPER. Of course, the 1934 Revenue Act really accomplished a slight reduction in the lower brackets of individual income taxes. That is correct, is it not?

Mr. CLAUSEN. The general impact of the 1934 individual rates was an increase and not a reduction.

Mr. COOPER. You probably do not come within the lower brackets.

Mr. CLAUSEN. I come mighty close to them, sir.

Mr. COOPER. There can be no doubt about that, Mr. Clausen. The 1934 act really made a slight reduction in the lower brackets of income-tax returns.

Are you familiar with the 1934 act?

Mr. CLAUSEN. I have a general idea of it; I would have to refer to figures to be accurate.

Mr. HILL. The credit for earned incomes went clear up through the whole list of brackets, through the whole tax structure.

Mr. VINSON. The same thing might be said with reference to the personal exemption.

Mr. CLAUSEN. The surtaxes started at a lower level.

Mr. VINSON. A few minutes ago reference was made to the "brain trust". Now, as a businessman, I would like for you to tell this committee if at any time in the history of your experience business has ever placed a discount upon brains?

Mr. CLAUSEN. No, sir.

Mr. VINSON. But they are not so considered now?

Mr. CLAUSEN. Not at all; it is the practical application of economic principles that we are concerned with.

Mr. VINSON. As I recall, you made a statement about corporate taxes in Great Britain. At the present time the rate is 22½ percent, and just a short while ago it was 27½ percent.

Are you in favor of the substitution of the British system of corporate taxes for that which we have on the books of this country today?

Mr. CLAUSEN. I do not think that would be possible because of our State systems. For example, in my State of Wisconsin we impose a 7-percent tax on corporations, in addition to the Federal tax.

Mr. VINSON. With the conditions that obtain in Wisconsin and other States in the Union, I am asking you whether you would suggest the substitution of the corporate tax used in Great Britain for the Federal corporation tax in this country?

Mr. CLAUSEN. I do not think I would, but I would be glad to accept some of the things that the English system provides as to the details, with reference to the question of losses and gains and the adjustment of taxes and things of that kind.

Mr. VINSON. I believe you mentioned in your statement that you favored the carrying over of losses, which still prevails in England.

Mr. CLAUSEN. Yes.

Mr. VINSON. What period would you favor carrying over losses?

Mr. CLAUSEN. The system that prevails there of the 3-year method, I thought, was very practical.

Mr. VINSON. It never got to a 3-year method in this country, did it?

Mr. CLAUSEN. I think so.

Mr. VINSON. But really carrying over for a 2-year period? As a matter of fact, as it worked out in practice you have got 3 years in which you could use losses sustained against income earned, but so far as the law was concerned, it had the appearance of being a 2-year carry over; that is correct, is it not?

Mr. CLAUSEN. Yes.

Mr. VINSON. It was under that carry-over provision that the largest financial institutions in this country were able to completely avoid the payment of any income taxes in the year 1930.

Mr. CLAUSEN. Was that due to the carry-over provision?

Mr. VINSON. Yes; on the losses sustained in 1929, and I refer particularly to the testimony of J. P. Morgan and Kuhn, Loeb & Co. before the Senate committee, and also the testimony of other large concerns in reference to losses in 1929. As a result, they had no earned income except for the fact that they were wiped out completely in the year 1930.

Do I understand that you would go back to the old law permitting the carrying over of losses, in effect for 3 years, to be used in wiping out income for the 2 years next following the year in which the losses are sustained?

Mr. CLAUSEN. It has always seemed unfair to my mind for a governmental unit to take advantage of a situation in a rising trend of earnings, and refuse to grant it the other way.

Mr. VINSON. As I understand it, you would go back to that policy?

Mr. CLAUSEN. That is my personal position; yes, sir.

Mr. VINSON. I am not going to quarrel with you about that position of yours, because you can have any position you desire.

Mr. CLAUSEN. I felt that it was the system that more nearly reflected tax-paying ability and returns on the net earnings that actually existed.

Mr. VINSON. Referring again to the British system of taxes on corporations, would you follow their policy in regard to depletion?

Mr. CLAUSEN. I am not well enough informed on that to answer you.

Mr. VINSON. If the British system allows no deduction for depletion, or practically no deduction for depletion, do you think that would be a good thing to inject into our income-tax structure?

Mr. CLAUSEN. That would very much depend upon the nature of the business.

Mr. VINSON. Of course it would, and perhaps in your business it would not make a dime's difference; but in those businesses that have depletion, it certainly would be quite important.

Mr. CLAUSEN. It would, certainly.

Mr. VINSON. As a business man now—and you are a business man of wide experience—would you for a split second advocate to this committee and to the Congress that the depletion allowance to those concerns that have it, should be abolished?

Mr. CLAUSEN. I think as a business man interested in business of that kind I would rather object to it.

Mr. VINSON. As a matter of fact, it is a proper allowance, because if you do not have a depletion allowance you are not taking into consideration the use of capital. In other words, if you do not have a depletion allowance it practically amounts to reaching out and getting capital?

Mr. CLAUSEN. Of course, you understand my argument is not a comparison with the British system. Here there are a whole series of taxes that the American citizen has to pay.

Mr. VINSON. I understand, and you made your views quite clear, although I did not catch any conclusion of your statement that you favored the substitution of the British system for our system.

You do have depreciation in your business, do you not?

Mr. CLAUSEN. Yes; of equipment and buildings and things of that kind.

Mr. VINSON. Do you feel that the British system with reference to depreciation should be followed in this country?

Mr. CLAUSEN. I cannot answer you on that.

Mr. VINSON. What do you think about our system dealing with depreciation?

Mr. CLAUSEN. I think, on the whole, you have tried to reach a fair basis and you have probably leaned over backwards sometimes in not allowing certain depreciation. Of course, on the Government's standards it is difficult to write a fair measure.

Mr. VINSON. By and large it is a fair allowance, do you not think?

Mr. CLAUSEN. Probably it is as fair as you could come to.

Mr. HILL. Mr. Clausen, yourself and other witnesses have appeared here and expressed the view that we must not do anything to injure the restoration of confidence in the business world. Of course, I appreciate the fact that there must be confidence in the business world, or else we will not make as rapid progress back to recovery as otherwise.

But the taxing policy is not the big thing in the question of confidence, as to whether there should be confidence or lack of confidence in the business world, it seems to me.

Taking your statement that it was in 1930 when we started on the toboggan, you say on page 6 that the maximum surtax rate was 20 percent, and the maximum estate tax rate was 20 percent, and that there was a 11 percent corporate income tax rate. And yet business lost its confidence; it went down to the very bottom of the trough of economic conditions. No complaint can be made that those tax rates obtaining were excessive.

There must have been something else besides taxes that affected the confidence and courage of business at that time.

I think, on the other hand, there must be other factors, that the taxing system itself is not solely to blame for lack of restoration of business confidence. That is one factor, but probably a very minor factor that has to do with the outlook of the business world.

Mr. CLAUSEN. The important thing in this connection is the proposition of changing our economic system to the extent of limiting the size of business corporations and limiting personal fortunes. That goes further than taxing.

Mr. HILL. Do you think that is a necessary consequence of carrying on into the higher brackets the graduation of personal income taxes and the adding of inheritance taxes to those large inheritances?

Mr. CLAUSEN. It seems to us that would be the inevitable result of such a program.

Mr. HILL. Of course, if you took the other extreme of your suggestion, that big combinations of property and wealth make for greater efficiency, so that these large producing industries can put their products out at lower prices to the public, and if you put all of the business in a particular line into one big corporation, you would reach the acme of business efficiency, would you not?

Mr. CLAUSEN. You would reach a point then where the Government would be justified in taking a hand—

Mr. HILL (interposing). Is not that following out the line of your argument?

Mr. CLAUSEN. No, sir. In almost every line of endeavor today, including automobiles, steel, textiles, farm machinery, and so on,

there is sufficient competition among the manufacturers, and a sufficient number of manufacturers engaged in the same kind of business to prevent that question from arising. That question does not arise so far as the large size of corporations is concerned.

Mr. HILL. You think it will stabilize itself on the basis of sufficient competition.

Mr. CLAUSEN. Under the American system, it always will.

Mr. HILL. You said something about there being no tariff on farm machinery: You are right as to there being no tariff on farm machinery, but there is a tariff on the fabrics that enter into the manufacture of farm machinery.

Mr. CLAUSEN. Yes, sir; there is a tariff on steel, but there is not any tariff on the finished product.

Mr. HILL. The same is true of textile fabrics. There is a tariff on fabrics brought in that would be used in the manufacture of farm machinery.

Mr. CLAUSEN. Yes, sir. That is not necessarily of any advantage to the manufacturer of farm machinery.

Mr. HILL. It enhances the cost of farm machinery brought into the market in this country. It enhances the cost of the foreign-made farm machinery in this country.

Mr. CLAUSEN. I do not see that. There is no tariff on the finished machinery coming into this country.

Mr. HILL. If you collect the tariff on the material that goes into the machinery, or a tariff on the material that goes into the fabrication of the machinery, does not that enhance the cost of the foreign-produced machinery in this country?

Mr. CLAUSEN. That is not the practice.

Mr. HILL. In fact, we do not import foreign machinery.

Mr. CLAUSEN. No, sir; I believe we beat them in that.

Mr. HILL. You can go into their market, and compete with them in their own market.

Mr. CLAUSEN. Yes, sir; to a certain extent.

Mr. HILL. That is largely controlled by one manufacturer, so far as farm machinery is concerned.

Mr. CLAUSEN. There are eight companies manufacturing farm machinery.

Mr. HILL. One big one, and the others are small.

Mr. CLAUSEN. They are of substantial size.

Mr. HILL. Of course, I do not care to get into an argument with you on that.

Mr. REED. The President, in his Budget message for 1936 said this:

While I do not consider it advisable at this time to propose any new or additional taxes for the fiscal year 1936, I do recommend that the Congress takes steps by suitable legislation to extend the miscellaneous internal-revenue tax which under existing law will expire next June or July, and, also, to maintain the current rates of these taxes which will be reduced next June. I consider that such taxes are necessary to the financing of the Budget for 1936.

In view of that, when business concerns read of this recommendation, were they not somewhat surprised and shocked at this proposal of the President?

Mr. CLAUSEN. That is true; yes, sir. We placed a great deal of reliance on that statement in the message, and we felt for a time that it was the last message on the subject, and that new taxes would not be a disturbing element in business recovery.

Mr. REED. Do you feel it had a bad effect on the confidence of business men to have this proposal pending for a reform or a redistribution of wealth.

Mr. CLAUSEN. That is the source of the disturbance I spoke of.

Mr. REED. Mr. Cooper asked you a series of questions about increased revenues as indicating quite a pick-up in business. You are aware, of course, that we reduced the rates at a time when revenues were low. We reduced the rates from 1920 up to 1930 several times. Federal taxes were reduced five times during that period. Of course, the rates have been increased somewhat under the 1934 Revenue Act, and that would account for some of the additional revenue, while also there has been \$600,000,000 of processing taxes collected annually, or approximately that. So that would account for some of the additional revenue, rather than the pick-up in business.

Mr. CLAUSEN. The processing tax is not a part of this picture.

Mr. REED. But there has been a falling off in customs receipts on account of the decrease in some lines. Having this in mind, what construction do businessmen place on the new recommendation that has come in for additional taxation?

Mr. CLAUSEN. I would say, speaking generally, they felt that this was not a revenue measure as much as it was a program of so-called "social justice", involving the distribution of wealth. If you put it that way, of course we do not agree that it would distribute it to anybody else but the Government. But that was the impression of business men generally, that it was not primarily a revenue measure.

Mr. REED. Now, I read from the President's message relative to this tax proposal, in which he said, bearing out what you say:

Because of the basis on which the proposed tax is to be levied and also because of the very sound public policy of encouraging a wider distribution of wealth, I strongly urge that the proceeds of this tax should be specifically segregated and applied as they accrue, to the reduction of the national debt.

Now, we have no bill before us, and I suppose we will not have any specific bill that we can discuss until one is prepared somewhere and handed to this committee. We have been holding these hearings without a bill before us, of any kind, and I want to congratulate you upon your fine statement, in view of the fact that there is no bill before the committee to discuss.

Mr. CLAUSEN. I thank you.

Mr. McCORMACK. I am sorry I was not here when you started your statement: I assume you are opposed to a graduated business corporation tax?

Mr. CLAUSEN. Yes, sir; I am.

Mr. McCORMACK. The present rate of that tax is 13¾ percent.

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. Do you favor an increase of that tax applicable to all corporations?

Mr. CLAUSEN. Not by itself, or not as a separate proposition. When the proposal is made, so far as business is concerned, we would expect a complete program that referred to the fiscal situation of the Government, coupled with a reduction of expenditures and eventually a balanced Budget.

Mr. McCORMACK. I think that is a fair answer. I want to get your views on the inheritance tax. Have you expressed your views on that?

Mr. CLAUSEN. No, sir; I have left that to a colleague of mine, Mr. Osgood, who will present a statement on that.

Mr. McCORMACK. I assume from what Mr. Reed said, that Mr. Cooper has asked you some questions on this line. Business has considerably improved during the past 2 years, has it not?

Mr. CLAUSEN. During the past 12 months, there has been an improvement; yes, sir. I think we are on the upward turn of the cycle, as I stated.

Mr. McCORMACK. You approved the Reconstruction Finance Corporation Act; did you not?

Mr. CLAUSEN. That has been very helpful.

Mr. McCORMACK. And you approved the various acts that brought about loans to industry; did you not?

Mr. CLAUSEN. That, I think, has been a very important question, except—

Mr. McCORMACK (interposing). Still, you approved those laws.

Mr. CLAUSEN. I approve of the gesture, or whatever you might call it, in that direction.

Mr. McCORMACK. Would you call it a gesture?

Mr. CLAUSEN. I put it that way because it has not been of general advantage, due to the difficulty in obtaining funds, and so on.

Mr. McCORMACK. You refer to loans of the R. F. C. to banks.

Mr. CLAUSEN. That is another matter. I thought you meant the special loans to industry.

Mr. McCORMACK. The law that was passed last year?

Mr. CLAUSEN. That is the one I was talking about.

Mr. McCORMACK. The general policies under existing conditions, are in the right direction, are they not, and will afford an inspiration to business if administered properly? If properly administered, they are in the right direction. Of course, everything depends upon the character of the administration, but whatever tends in the right direction, should be maintained, should it not?

Mr. CLAUSEN. The R. F. C. program is very helpful in that direction.

Mr. McCORMACK. Do you approve the action that was taken in relation to the banks?

Mr. CLAUSEN. Do you mean the present proposed banking act?

Mr. McCORMACK. No; the closing of the banks in 1933.

Mr. CLAUSEN. I do not think it is very important to have my approval or disapproval of that. It was probably a necessity.

Mr. McCORMACK. The banks were in rather bad shape then, were they not?

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. And some action had to be taken.

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. If no action had been taken, chaos would have resulted, or there would have been serious difficulty?

Mr. CLAUSEN. I think that was generally understood.

Mr. McCORMACK. There would have been serious difficulties and probably serious complications resulting if some action had not been taken.

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. You approve the act securing deposits up to \$5,000, do you not?

Mr. CLAUSEN. I think, as an emergency proposition, it was all right.

Mr. McCORMACK. Of course, the main object in life is security.

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. You like security for yourself and your family. I know I would.

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. If I am out of a job, I want some security in my old age. Although it might have been my own fault that I did not have money saved up, I would want security.

Mr. CLAUSEN. I think the first obligation would be upon me to procure that security.

Mr. McCORMACK. That is true; but in a country with a large population, particularly one of 125,000,000 people, you must realize that some do not make that provision, and they become problems that others must assume. That is true, is it not?

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. Without going into the details of many things that probably you and I would agree on, as to the general proposition or the general objective during this emergency, because of this extreme economic distress, you agree with that, do you not?

Mr. CLAUSEN. We cannot disagree as to it.

Mr. McCORMACK. Of course, there may have been many things that the administrators have done that we did not agree with, but I mean as to the general picture.

Mr. CLAUSEN. On the general purpose of relieving distress, we are a unit, I am sure.

Mr. McCORMACK. I am an admirer of the United States Chamber of Commerce. Unfortunately, there is a sentiment in the country that they are opposed to anything along the line of humane legislation, but I do not think that is a right impression to give. However, that sentiment does exist.

Mr. CLAUSEN. That is not the intention and it is untrue.

Mr. McCORMACK. That is what I mean. Unintentionally, they have conveyed that impression to the American people, and I wanted to get your reaction to some of those things. I want to say that my observation has been that you have made one of the finest witnesses that has appeared before the committee.

Mr. CLAUSEN. I thank you.

Mr. COOPER. There is one other question I would like to ask. The figures which I quoted to you a few moments ago, from your statement, are based entirely on income taxes?

Mr. CLAUSEN. Yes, sir.

Mr. COOPER. And processing taxes, and other taxes or revenue sources are not mentioned at all in that connection.

Mr. CLAUSEN. They were eliminated.

Mr. COOPER. What would be your thought as to an excess profits tax for corporations?

Mr. CLAUSEN. That is not a new problem, and the answer to it is one that has been developed through experience; that is, the impossibility of administration.

Mr. COOPER. You recognize, of course, that the tax would take into consideration the capital invested.

Mr. CLAUSEN. That, of course, is a difficult tax to administer.

Mr. COOPER. Other than the difficulty of administration, what would be your view as to an excess-profits tax?

Mr. CLAUSEN. It would be recognizing a continuation of the emergency, or a greater emergency, which should not be recognized. That tax, of course, was imposed for war purposes, and I think that would be the ultimate reason for imposing it. Otherwise, we would object to it.

Mr. COOPER. You would not favor it now?

Mr. CLAUSEN. No, sir.

Mr. McCORMACK. Can you give us any idea as to the number of stockholders there are in American corporations today, or in all of the corporations? Have you given any consideration to that so that you could tell us the number of persons in the United States who are stockholders in corporations?

Mr. CLAUSEN. We will submit some figures to you, or a chart showing those figures as nearly as we can get them. There have been various estimates, ranging from 3½ million to 5 or 6 million stockholders.

Mr. McCORMICK. Of course, when we talk about a corporation making profits, I like to see it done. I hope to see them make more profits, and redistribute the money among their stockholders. Of course, that money would then go into circulation.

Mr. CLAUSEN. Yes, sir; a corporation represents its stockholders, and is not composed of one individual.

Mr. McCORMACK. If conditions should be such that all the wealth would go into the hands of very few people, or would be concentrated in the hands of a few corporations, through interlocking directorates and other means—if that condition should ever arise—and I do not say that it exists today—but if that condition should arise, something would have to be done.

Mr. CLAUSEN. The opposite is what is happening, or diffusion.

Mr. McCORMACK. I am not disagreeing with you on that; but if the trend were the other way, then, you admit, do you not, that the Government would be justified in exercising its powers to try to regulate it?

Mr. CLAUSEN. No one would deny the right of the Government to regulate abuses.

The CHAIRMAN. You referred, I believe, to the fact that this large capitalized industry, or aggregation of capital, enabled the farmer to buy tractors and other farm machinery much more cheaply than if they were more limited in their capital or money with which to operate their particular line of industry; is that correct?

Mr. CLAUSEN. Yes, sir.

The CHAIRMAN. Farmers have always been a very intelligent class of people. Considering their limited educational advantages and facilities, they have been a well informed class of people. Do you agree with that statement?

Mr. CLAUSEN. Yes, sir; very decidedly.

The CHAIRMAN. Yesterday, we had some very interesting testimony before this committee. We had a number of very intelligent and interesting witnesses to appear. One of them was Mr. George R. Chandler, a representative of the Ohio Chamber of Commerce, and another one was Chester H. Gray, of Washington, representing the American Farm Bureau Federation. The first witness, Mr. Chandler, criticized the proposed legislation very severely, as well as the "new deal" and Congress. He based his criticism largely, he

said, on information he had gleaned from the press of the country. The statement that he made before the committee was featured in the newspapers and was given wide publicity, whereas the equally able and dignified statement made by Mr. Gray, representing the American Farm Bureau Federation, favoring the proposed legislation, and in opposition to the testimony given by Mr. Chandler, received no comment and no publicity.

There was not a word or line about it that I have been able to find in the Washington papers. Here was one witness representing industry and another one representing agriculture, both able and intelligent men, but the statement of the man representing agriculture was ignored by the press, showing conclusively to my mind that both sides of this picture are not being presented by the press of this city. If that be true, how is the country to form a correct conclusion, if it is to be based upon reports that go out from here? How can they form a correct conclusion as to what is being presented to this committee and in these hearings? That is an observation that I, as the chairman of the committee, feel I should make before the committee today. I want to state that Mr. Gray has appeared here for the farmers of this country. If Mr. Gray, representing the American Farm Bureau Federation, had felt that this increase, or these additional taxes proposed by the President's message, would be prejudicial or harmful to the great farming interests of the country, he would not have been here recommending these increased taxes. Yet, he appeared here on behalf of that federation, just the same as you are here representing the United States Chamber of Commerce opposing these increased taxes. I have no doubt that what you say will be given wide publicity. So far, those who have favored these taxes have been given no publicity, while those who are opposed to the taxes, have been given wide publicity. The chair thought that he should make that comment.

Mr. COOPER. There is one other question I would like to ask, and I am sorry to detain you: Would you favor a tax on corporation surpluses?

Mr. CLAUSEN. That is dangerous, because there is no measure of the need of corporate surplus.

Mr. COOPER. They do have them, do they not?

Mr. CLAUSEN. Fortunately, they did have them during the depression, or there would have been a much worse "bust-up" than the one that occurred. Surpluses are absolutely essential to any program for the conduct of business.

Mr. COOPER. You would not favor a tax on corporate surplus?

Mr. CLAUSEN. I would not, because there would be a great difficulty in the Government ascertaining what was profit and what was surplus, or what was surplus and what was not. There would be great difficulty there.

Mr. VINSON. Would you care to state your views with reference to an excess-profits tax?

Mr. CLAUSEN. I answered that question a moment ago to this effect, that it has been answered in a practical way when it was imposed under our Federal law, and when it was found that it was not susceptible of good administration.

Mr. VINSON. If that obstacle, as to the administrative features could be overcome, what would be your notion about it today?

Mr. CLAUSEN. I would still be opposed to it on principle.

Mr. VINSON. What is your objection to it?

Mr. CLAUSEN. I believe that excess profits of that kind, above a certain amount, should be taxed later in the hands of individuals. I am giving my personal view on that, you understand.

Mr. VINSON. As between a graduated corporation income tax and an excess-profits tax, what would be your preference?

Mr. CLAUSEN. My answer to that would be that I would not favor either.

Mr. VINSON. But if you just simply had to take one or the other, what would you say?

Mr. CLAUSEN. I would be unwilling to agree to that proposition, that we had to have one or the other.

Mr. VINSON. You do not want to have any?

Mr. CLAUSEN. It is not a matter of wanting to pay a fair tax?

Mr. VINSON. Any except a manufacturers' sale tax. I do not know what your attitude is on that.

Mr. CLAUSEN. My answer to that is that you will have to come to that if you are to get more revenue.

Mr. VINSON. What other suggestion would you make in the way of raising revenue? You spoke in your statement about balancing the Budget at some time: What is your suggestion as to the taxes that should be imposed for that purpose, or what would you recommend? I would expect you to suggest an extension of the sales-tax program.

Mr. CLAUSEN. That would afford a very substantial increase in revenue. I dealt in my discussion with the increased returns on the income of business men. I think those two features alone, with a reasonable program of expenditures, would give the revenue desired.

Mr. DISNEY. In your statement, did you make any definite suggestion as to a reduction of expenditures?

Mr. CLAUSEN. I did not; because we were given to understand that that problem was not before this committee at this time.

Mr. COOPER. But you definitely advocated that in your statement, even though you understood that it was not under consideration now.

Mr. CLAUSEN. Yes, sir; absolutely.

Mr. DISNEY. You do not care to make any suggestion as to any new taxes, other than your suggestion as to a manufacturers' sales tax, and you have no suggestions to offer as to what expenditures should be either reduced or eliminated.

Mr. CLAUSEN. Not at this time. If you take that up at a later time, we will present our views on it.

Mr. DISNEY. Does your organization have any suggestion to make as to a reduction of expenditures?

Mr. CLAUSEN. If you will give us an opportunity to present our views as to that, we will be glad to do so.

Mr. VINSON. You could file that as a brief or supplemental statement to your testimony.

Mr. CLAUSEN. Yes, sir; we will do that.

Mr. McCORMACK. Of course, the only real reduction in expenditures would have to be in the matter of emergency relief appropriations as conditions improved. Of course, as employment conditions improve in industries, there will be a substantial tapering off in these emergency relief expenditures. I assume that that is one of the things you have in mind; but until such time as the people who are suffering

from the economic effects of the depression can be absorbed in private industry, or given employment, we all recognize that there is a duty somewhere to try to relieve that human suffering. If our charitable organizations are broken down, and cannot carry the burden, then, whether we like or not, we must look to the Federal Government for aid.

Every thinking person, every humane person, and, I submit, every person who is thinking along the lines of our theory of government, however much he may dislike to see the Government extend these secondary functions into this field, realizes that we have got to do it under a great emergency.

Mr. CLAUSEN. Yes, sir. I would not want anything I have said to be considered contrary to that.

Mr. McCORMACK. Now as to the surpluses: We cannot ignore the fact that the surpluses which business has built up are liable to collapse. Many of them are still going along on their surpluses, although there has been a decided improvement in the last year or so. Profits are increasing. Let us hope that they will continue to do so. Nevertheless, corporations have drawn on their surpluses or the reserves which they have built up in their prosperous days. That is true, is it not?

Mr. CLAUSEN. Yes, sir.

Mr. McCORMACK. I happen to know of a company that employs 11,000 people in West Chesterfield, N. H. They have a \$16,000,000 reserve, which they have drawn on to keep people employed. Now they are borrowing from the banks. That surplus that they had proved to be a reserve when the emergency arose, and they used that in connection with their business and to keep their people employed; and my observation of business, in a general way, has been that all of them are doing the same thing—drawing on their reserves and hoping that the time will come when they can get back on the right side of the ledger.

Mr. CLAUSEN. There is a misconception as to surpluses. They are not in cash. They may be partly in cash, but they are usually in inventories or in equipment or in buildings. It is a bookkeeping item.

Mr. McCORMACK. But corporations have been drawing from them in order to keep going?

Mr. CLAUSEN. Yes, sir; and they have been utilizing them—if in cash, using their own, or, if not, borrowing on their surplus in order to maintain themselves, as you have suggested.

Mr. McCORMACK. As to whether it is too high a surplus, I cannot pass on that. I just wanted to get your reaction. Thank you.

The CHAIRMAN. Mr. Clausen, I believe you testified that when the President's message was delivered to Congress and given publicity throughout the country, the interpretation of that message was to the effect that its prime purpose was not revenue, but distribution of wealth or some social protection. Is that correct?

Mr. CLAUSEN. Yes, sir.

The CHAIRMAN. And you believe that the prime purpose of all taxes should be revenue?

Mr. CLAUSEN. I think fundamentally that is so; but there are occasions, and I think the courts have recognized that incidentally—

The CHAIRMAN. Incidentally; but what about this case?

Mr. CLAUSEN. Basically the fundamentals of taxation are for raising revenues.

The CHAIRMAN. You believe in a protective tariff; do you not?

Mr. CLAUSEN. Yes, sir.

The CHAIRMAN. Is the prime purpose of that to raise revenue, or incidental protection? You realize that in many cases it is so high that it produces no revenue at all. Would you favor that?

Mr. CLAUSEN. I have been somewhat of a low-tariff man myself, but I think we have reached a situation where there is very little distinction. It is incidental revenue or it is incidental protection, either way you figure it.

The CHAIRMAN. Well, it would not be incidental protection if the tariff was so high that no goods came in and no revenue was collected. It would be all protection?

Mr. CLAUSEN. It would be all protection then; yes, sir.

The CHAIRMAN. That is all.

The next witness is Mr. Roy C. Osgood, Chicago, Ill., representing the United States Chamber of Commerce. Please give your name, address, and the capacity in which you appear.

STATEMENT OF ROY C. OSGOOD, VICE PRESIDENT FIRST NATIONAL BANK OF CHICAGO, ILL., AND MEMBER OF THE COMMITTEE ON FEDERAL FINANCE, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. OSGOOD. Mr. Chairman, my name is Roy C. Osgood. I am vice president of the First National Bank of Chicago and in charge of its trust department activities. I have been administering estates in the bank for 30 years, dealing daily with problems of estate and inheritance taxes. I appear here, however, as a member of the Committee on Federal Finance, Chamber of Commerce of the United States.

It has happened that in connection with the work of such organizations as the National Chamber, the Chicago Association of Commerce, the Investment Bankers Association of America, the Corporate Fiduciaries Association in Chicago, the National Tax Association, and in various official and unofficial conferences upon the subject, it has been necessary for me to devote attention to legislation relating to estates and inheritances and the administration of such legislation by Federal and State officials.

Some of the testimony of Mr. Clausen, who has just preceded me, in dealing with the general aspects of the proposals before you, has touched upon considerations that apply to the suggestions for inheritance taxes, and I shall try to avoid duplication.

The President in speaking of taxes upon legacies referred to "very large amounts." There were released from the Senate Finance Committee certain tentative tax rates and the Secretary of the Treasury has presented others to your committee. To dispose first of the schedule that was before the Senate Finance Committee, it is to be noted that it applied a tax on each specific bequest, by brackets, which ranged from a 4-percent tax on inheritances of \$300,000 to \$500,000 up to a 70-percent rate on amounts of \$7,000,000 to \$10,000,000 and 75 percent on larger amounts. The release from the Senate Finance Committee made no reference to deductions per-

mitted and apparently no allowance on account of the degree of consanguinity.

The following figures indicate the percentages of different sized estates which the present estate taxes combined with that schedule of inheritance taxes would absorb. On an estate of \$1,000,000 with one heir the combined taxes would amount to 20 percent; with three heirs it would amount to 17 percent. On a net estate of \$5,000,000, before exemptions, with one heir the taxes would absorb 47 percent; with three heirs, 38 percent. On an estate of \$10,000,000, with one heir, the taxes would absorb 62 percent; with three heirs, 49 percent. On an estate of \$100,000,000, with one heir the taxes would absorb 87 percent and with three heirs, 81 percent.

It was asserted that that particular schedule of inheritance taxes would yield \$200,000,000 annually. Nobody appears to take that estimate very seriously. The total estate tax collected by the Federal Government in 1934 amounted to about \$104,000,000 and the corresponding figure for 1935 will approximate \$135,000,000. An estimate that the inheritance tax applied in the manner described would yield nearly double that accruing from the present estate tax appears unreasonable.

To obtain some perspective upon the impact of the schedules submitted by the Secretary of the Treasury, let us take an actual case.

A New York citizen who died in October 1930 left a gross estate which was appraised at \$72,740,838.

According to reports of official record the total costs against that estate were as follows:

Debts.....	\$5, 027, 543
Administrative expenses.....	454, 105
Attorneys' fees.....	400, 000
Executors' fees.....	4, 050, 361
New York estate tax.....	9, 513, 013
Federal estate tax.....	2, 283, 103
Total costs.....	21, 728, 125

Mr. VINSON. What estate was that?

Mr. OSGOOD. Off the record.

Mr. VINSON. I do not see any reason why it should be off the record.

Mr. OSGOOD. Of course it is a matter of public record; but I don't like to deal with personalities. It was the Harry Payne Whitney estate, and it was a pretty large estate, as estates go.

Mr. VINSON. I do not see anything secret about it.

Mr. OSGOOD. There is not, except that I dislike to comment on personalities.

Mr. VINSON. You have not done it.

Mr. OSGOOD. Under the present Federal estate tax rates the total costs of settlement of that estate payable in cash would have amounted to \$46,000,706. There was a shrinkage of \$8,355,000 in value of the securities after death. After allowing for this shrinkage and payment of total costs there would have been left for distribution to the beneficiaries the sum of \$18,384,250, or about 25 percent of the original estate.

Mr. McCORMACK. You would not charge up debts to expenses, would you?

Mr. OSGOOD. Well, they are a part of the shrinkage of the estate itself.

Mr. McCORMACK. I think you ought to chop that \$5,000,000 off.

Mr. OSGOOD. But, of course, your debts have to be deducted in almost every Federal——

Mr. McCORMACK. That is an obligation of the estate. That is something that the testator received during his life.

Mr. OSGOOD. That is correct.

Mr. McCORMACK. That is not the fault of the Government.

Mr. VINSON. The debts actually reduce the estate. The estate is not that large.

Mr. OSGOOD. The estate that goes to the heirs, irrespective of taxation, would be reduced by the debts that the man owes.

Mr. VINSON. I say it would be reduced; but you use a gross figure here. You use the appraised value, and of course that is not the value of the estate, because the value of the estate is that which is to be distributed.

Mr. OSGOOD. Well, that would make your total costs in that case \$16,000,000.

Mr. COOPER. Just one question.

The CHAIRMAN. Would you like to conclude your main statement without being interrupted?

Mr. OSGOOD. I would like to conclude it without interruption, if I may, but I shall be glad to answer any questions.

Mr. COOPER. I just wanted to observe that the Federal estate tax is only about half of the executors' fees in that case.

Mr. OSGOOD. That is true in that estate.

Now, if we make some assumptions concerning the impact of the various schedules of inheritance tax presented by the Secretary of the Treasury, we find that this remaining amount of \$18,384,250 would be affected under the 14 schedules, as follows:

Under table 1A—announced to produce \$5,000,000—the \$18,384,250 would be reduced by \$11,038,687, if the estate went to one heir, leaving \$7,345,563 out of the total estate of \$72,740,838, providing the additional inheritance tax could be realized without further shrinkage in asset value.

Under table 2A—announced to produce \$20.3 millions—there would be a reduction of \$12,407,187, if the estate went to one heir, leaving \$5,977,063.

Under table 3A—announced to produce \$60.5 millions—there would be a reduction, under the same circumstances, of \$12,133,187, leaving \$6,251,063.

Under table 4A—announced to produce \$93.2 million—there would be a reduction under similar circumstances of \$12,177,787, leaving \$6,206,463.

Under table 5—announced to produce \$489,000,000—there would be a reduction, under similar circumstances of \$11,525,077, leaving \$6,859,173.

Under table 6—announced to produce \$209,000,000—there would be a reduction, under similar circumstances, of \$11,493,577, leaving \$6,890,673.

Under table 7—announced to produce \$282,000,000—there would be a reduction of \$11,515,377, leaving \$6,868,873.

Under table 8—announced to produce \$508,000,000—there would be a reduction of \$16,316,695, leaving \$2,067,555.

Under table 9—announced to produce \$223,000,000—there would be a reduction of \$16,270,695, leaving \$2,113,555.

Under table 10—announced to produce \$300,000,000—there would be a reduction of \$16,306,995, leaving \$2,077,255.

The remaining tables—11, 12, 13, and 14—which, respectively, are announced to produce \$678,000,000, \$472,000,000, \$728,000,000, and \$516,000,000, it is necessary to make an assumption that the one heir has either no or some statutory net income and, if the latter, to compute the tax according to the size of the net income.

If, for the purpose of each table, we assume there is no statutory net income, the reductions would be as follows: Table 11, \$11,525,077; table 12, \$11,515,377; table 13, \$16,316,695; table 14, \$16,306,995.

If it be assumed that the heir has a statutory net income of \$1,000,000, the reductions would be as follows: Table 11, \$11,582,077; table 12, \$11,572,377; table 13, \$16,606,195; table 14, \$16,596,495.

If it be assumed that the heir has a statutory net income of \$10,000,000, the reductions would be as follows: Table 11, \$11,582,077; table 12, \$11,572,377; table 13, \$17,281,195; table 14, \$17,271,495.

It is to be noted that table 13 was stated to produce the largest amount of revenues, namely, \$728,000,000. If the explanation that accompanied this table is correctly understood by us, the method of applying the tax, according to the statutory net income of the heir, would produce some strange results.

If it be assumed that under this table the heir has no statutory net income, the net impact of the tax would be to reduce the \$18,384,250 by \$16,316,695, leaving \$2,067,555. If, however, the heir has a statutory net income of \$10,000,000, and therefore pays a net income tax of \$8,435,500, the amount of the inheritance tax would be \$8,845,695, and the combined income and inheritance taxes would be \$17,261,195.

In other words, with the \$10,000,000 income and the \$18,384,250 of bequest, the heir would receive in that year \$28,384,250, from the combined sources of which he would have paid \$17,281,195, leaving \$11,103,055. Since the heir would be liable, anyway, for personal income tax of \$8,435,500 on account of the \$10,000,000 income, he would be paying on account of the inheritance tax only \$8,845,695, as contrasted with the heir with no net income who pays on account of the inheritance tax \$16,316,695. This would be a strange tax.

It might be well to recall here that there are numerous instances of record where the existing or prior Federal estate taxes combined with the inheritance tax of the State government, the shrinkage in value of estate after death of decedent, the executors' and attorneys' fees and administrative expenses have amounted to the total value of the estate. In some cases they have amounted to more.

It would appear that if the main desire is to increase the yield from death dues the most satisfactory method would be to increase the present estate tax rates rather than to add a new form of taxation—the inheritance tax—with its recognized difficulties of administration.

I do not think I need go into any discussion before this committee as to the distinction between the estate tax and the inheritance tax. I think that is clearly understood.

An estate or inheritance tax is not technically regarded as a levy on the estate or legacy but is imposed on the devolution or transfer and is measured by the size of the estate or legacy. Rights of succession

are determined wholly by the States, and the Federal Government has nothing to do with them.

The States have long levied death dues, and in order to preserve to some extent the revenues which the States derive from this source it was provided in 1926 that estates would be allowed a credit for death taxes paid to State governments but not in excess of 80 percent of the tax due the Federal Government. The 1932 and 1934 Revenue Acts did not disturb this credit provision, which was computed under the lower rates of the 1926 act, but imposed an additional tax without any credit allowed thereon for taxes paid to the State governments.

It is now suggested that the Federal Government invade the inheritance tax field traditionally reserved to the States, and no mention is made of sharing in any way the proceeds with the States. This is an encroachment obviously by the Federal Government upon the revenue resources of the States, which in most cases are not now sufficient for them to discharge their public obligations.

These proposals, under all the circumstances, and the rates which in practice must prove confiscatory, in effect clearly indicate that the objective cannot be solely to raise revenues. But even if it is, should this field of taxation be further invaded by the Federal Government to the exclusion of the States? By the amount participation is allowed to the States the yields to the Federal Government would be decreased.

We cannot accept the theory that a large fortune is a public menace, to be destroyed by taxes when its holder dies. Many such fortunes pass into the hands of excellent custodians who employ them constructively. To the extent that the desire to assure continuance in a family of the possession and development of a going business is a strong inducement to the hard application of energy and prudent administration of affairs, the knowledge that estate and inheritance taxes will defeat such a purpose would mean inevitably a lessening of incentive upon the part of men of ability. They would be unwilling also to lend themselves to the establishment of new enterprises.

There are many instances throughout the country of the employment of fortunes in such a manner as to assure and increase employment, stimulate the development of whole sections or an entire community, and increase efficiency in production and trade with benefits to consumers.

Even under present taxes we hear from trust officers and insurance experts of instances in which they are asked to devise a plan whereby a man, still in the prime of life, who possesses considerable funds, may in effect disburse the principal over a period of time estimated to cover his remaining life and to leave his one or two heirs with only a portion of the fortune. The motive behind that desire is explained as resentment against what he considers confiscatory death dues with lack of incentive to augment the fortune. He is unwilling to see it absorbed in taxes, preferring to make gifts to tax-exempt recipients or to spend the money, often abroad. Thus it is obvious that taxes and the attitude of individuals toward them can result in the dissipation of wealth, in extravagance, or in other decisions that may be considered in effect antisocial.

Any large fortune (although it must be noted that many of the tentative schedules of inheritance taxes do not deal with very large bequests) passing to one who in the correct sense is not a good cus-

todian of wealth—with ability to preserve it—works its own cure. It disappears. The old saying of three generations from shirt sleeves to shirt sleeves is often now proving to be a liberal estimate of time. That saying was generally used to refer to personal incapacity to preserve or augment fortunes. Under present conditions the second generation, due to the rates of estate and inheritance taxes and methods of applying them, in the face of shrinkage in values, may become possessed of little, if any, wealth.

In this connection I make bold to say that the best justification of a capitalistic system is the fact that, by and large, wealth tends to come into the possession of people who are the best custodians of it. By good custodianship is meant a constructive employment of the wealth. Pools of wealth in the hands of capable individuals who can apply, in addition to their resources, their ability and energy make for economic development. It is largely to the men of means and income to whom business must now look for the funds to strengthen weakened financial and business institutions and to develop new enterprises.

We should make clear that while the general proposal respecting the levy of the high inheritance tax is opposed by us, and, we believe, should be opposed by everyone, our attitude is not because of the circumstance that few or many persons may be involved directly but because of the harmful effects upon enterprise and the general economy and especially upon business undertakings. If estate and inheritance taxes, combined with income taxes, should remove the incentive to thrift and endeavor, an economic injury, not a benefit, must result.

If the public understands that the adoption of the inheritance tax schemes that have been outlined will in practice amount to confiscation, and especially if there is failure to face the difficult administrative questions attending graduation of the taxes according to the degree of consanguinity, a feeling of unfairness will rapidly grow. We believe that it would appear to the public that elemental justice requires that the hand of government be laid less heavily on the legacy of a widow with young children or of an older widow unaccustomed to earning her livelihood in the business world than upon the same sized legacy going to a blood stranger.

It should be remembered that inheritance and estate taxes are by nature fortuitous. Estates and bequests may be subject to one rate of taxes this year and the estate and bequests of the next year or of the year after may be subjected to a different rate. In addition, the impacts of such taxes are adventitious in that asset values increase or decrease from year to year because of general economic conditions or special market situations. These taxes are not levied with attention to the income-earning powers of the principal sums involved. They are capital taxes in effect. They reduce the corpus of an estate usually in such a manner as to bring into government treasuries cash that thereafter for a considerable time, as a rule, produces no taxable income, certainly not while it is in the possession of government. This argues that the rates of death dues should be kept stable.

Finally, I wish to develop the fact that the records show that a very high percentage of the estates of \$1,000,000 or more do not have cash and other liquid assets averaging more than 11 percent. For the most part the money is invested in going businesses, not in tax-exempt bonds or preferred stock, but to a very considerable extent in partnership enterprises, common stockholdings, or the sole owner-

ship of income-producing properties or enterprises. The question then arises: By what means or process will Government collect such a combination of estate and inheritance taxes as has been suggested? Because the taxes would represent such a very large proportion of the total value, there can be no expectation of defraying them from current earnings in any reasonable period. To spread the period of the payment of the estate or inheritance taxes over many years obviously would reduce the immediate yield to the Government and raise such difficult questions as payment of interest. To attempt to sell large blocks of stock or other securities on the market, as we have seen even under existing taxes, can result either in a glut with no sales or sales at depressed values, without even a sufficient amount realizable to pay the tax.

In the case of fortunes actively engaged in enterprises it may be asserted that a corporation could be organized to take over the interests of the estate. It would seem, however, that such a corporation to be able to do this must be as large as or larger than the estate itself. Even if this method would realize the Government's money at the expense of the estate and its beneficiaries, the result clearly would be contrary to any purpose of the proposals that might contemplate the use of such method of taxation to break up large aggregations of capital.

Can we afford, in such a period as now exists, no matter what may be advanced in the way of argument as to social purpose or other justification, to discourage the enterprise of living people and cause shut-downs of active businesses or violent changes in ownership through forced transfers, to obtain some taxes from an inheritance tax plan, which, if devised with all caution, can produce under the fiscal conditions likely to exist during the next few years but a very small proportion of the Government's total revenues?

I have not undertaken to develop comparisons with death dues in foreign countries, because Mr. Clausen has touched upon that matter.

I close with an appeal, to which I am certain this committee is responsive, namely, that in the public interest and as matter of fair treatment of private property and personal rights, no schedule of taxes be adopted that will tend to drive fortunes into the ground or into avenues of escape, or that will wreck enterprises that are now so needed to furnish employment.

I thank you.

Mr. LEWIS. Mr. Osgood, do you accept the principle that taxes ought to be imposed in proportion to ability to pay?

Mr. OSGOOD. I do.

Mr. LEWIS. How, then, can you have a preference for the estate tax over the inheritance tax?

Mr. OSGOOD. I do have a very distinct preference.

Mr. LEWIS. To be concrete, \$100,000, we will say, is what the decedent has left. If he has one heir, one heir gets it. If he has 10 heirs, it is divided among 10. The ability of the 10 to pay is not the same ability as that of a single heir. That is the rule with regard to estate taxes. With regard to inheritance taxes there would be a graduation. Now, how do you justify your preference for the estate tax over the inheritance tax?

Mr. OSGOOD. The answer is, Mr. Lewis, that in my general experience, running over a good many years and dealing with the drafting

of wills, I find that the lawyers all through the United States—and those of you on the committee who are lawyers, I think, will bear me out—almost always change an inheritance tax into an estate tax by the provisions of the will itself, by providing that all State inheritance taxes and Federal estate taxes shall be paid as a general charge against the estate, and then in the will they so arrange the residuary bequests that they will take what is left after making such other specific provisions as they choose.

It is the general experience that lawyers themselves find an estate tax much easier to handle and to deal with than an inheritance tax.

Also, there are many difficulties in the administration of inheritance taxes. For example, one great difficulty, is the fact that the Government never knows when it collects an inheritance tax how much refund it may have to make later on, particularly on account of contingent provisions in trust. That has given an enormous amount of trouble in estate administration. I have talked with many estate administrators, and I have not found anyone yet who has been able to solve it. It simply means that later on there is a claim for refund filed; and in this case you would never know what amount of taxes you would finally collect.

Mr. LEWIS. Naturally, on this subject, England first comes to mind. Have they an inheritance tax?

Mr. OSGOOD. They have.

Mr. LEWIS. They have not found it impossible of administration, have they?

Mr. OSGOOD. They have found it very difficult to administer—not impossible.

Mr. LEWIS. They have not abandoned it?

Mr. OSGOOD. The English have not abandoned it but are not collecting much under it. Some four States are abandoning it at the present time. They are changing over to the estate tax.

Mr. McCORMACK. In England, of course, there is just one tax; that is, they do not have the dual system of government over there.

Mr. OSGOOD. What is that?

Mr. McCORMACK. They do not have the dual system of government; that is right, is it not?

Mr. OSGOOD. That is correct.

Mr. McCORMACK. I understand that you have not argued against the inheritance tax being reserved to the States. You have not argued against that?

Mr. OSGOOD. I think that the Federal Government ought not to go into the death-duty field at all, except in times of great stress. The legislative experience of Congress, as you know, has shown that they have only done it three times in the history of this country, prior to the World War. I think that field should be reserved to the States.

Do not misunderstand me: The chamber is clearly on record as favoring reasonable death duties; always has been.

Mr. VINSON. Federal death duties?

Mr. OSGOOD. It favors Federal death duties only in case of emergency, and I think at the present time it is probably impracticable for the Federal Government to go out of the Federal estate-tax field. I do not see how it can at the present moment with our need of revenue.

Mr. McCORMACK. I think your suggestion of an inheritance tax in different classes is a very sound one. Certainly a blood relation

should not be taxed as heavily as one that does not have a blood relationship at all, or a relative of third degree should be distinguished from a widow and children.

Mr. OSGOOD. Yes, Mr. McCormack. I think that the old exemption of \$100,000 recognized a living income of \$5,000 if the estate went to one person; that is, 5 percent on \$100,000. The \$50,000 exemption recognized \$2,500. Of course, if a man had only \$50,000 and came within the exemption, and it all went to his family, that ought to assure them \$2,500 income at 5 percent. It would not today.

Mr. McCORMACK. Of course, when we discuss the passing on of property, the blood relationship of the person receiving it is something should be considered, too.

Mr. OSGOOD. I think all State legislation, as you know, gives preference and exemption to direct relationship, such as wife and children.

Mr. VINSON. Not only exemptions, but a lesser rate.

Mr. OSGOOD. Yes. Both exemptions and a lesser rate.

Mr. McCORMACK. On page 9 of your statement you say:

In the case of fortunes actively engaged in enterprises, it may be asserted that a corporation could be organized to take over the interests of the estate.

Mr. OSGOOD. Sometimes that has been necessary in the case of large holdings.

Mr. McCORMACK. I know, but as a general proposition, that would really be an artificial action?

Mr. OSGOOD. Well, sometimes it is necessary, Mr. McCormack, in order to realize——

Mr. McCORMACK. I mean as a general policy. I am not talking about the necessities of today. I mean as a general policy——

Mr. OSGOOD. That would be true only in the case of larger fortunes.

Mr. McCORMACK. Of course, if a corporation were organized to take it over, there would have to be another corporation probably organized at some later date to take over somebody else's interest in that corporation.

Mr. OSGOOD. It is an endless chain. It is a forced relocation or distribution.

Mr. VINSON. That corporate structure has been seen many times in this country set-up, not for the purpose of the preservation of the estate and the payment of inheritance taxes, but in order to avoid taxes.

Mr. OSGOOD. The point that we were making——

Mr. VINSON. That is true, is it not?

Mr. OSGOOD. That is true, sometimes.

Mr. VINSON. Even now, the corporate structure is set up in many, many instances, in order to permit the paying of a lesser amount of taxes by the estate—I will not say by the estate, but a lesser amount of taxes upon the earnings of the estate.

Mr. OSGOOD. Well, I have found in my experience very few instances in which a corporate structure has been set up for that purpose. I think most of the people who try to do it mislead themselves.

Mr. VINSON. I am asking whether it has been done many, many times.

Mr. OSGOOD. It has been done some times. I would not say very many times; in the course of the administration of estates, I have

seen many cases where the reorganization of a corporation was necessary in order to pay inheritance taxes.

Mr. VINSON. One particular case I have in mind, after the estate had been administered, practically, they set up this corporation.

Mr. OSGOOD. In order to preserve the continuity of the value of the business and assets, I suppose?

Mr. VINSON. Yes, sir; and in order to save many of the taxes.

Mr. LEWIS. Mr. Osgood, your statement had the virtue of compactness to such an extent that I did not quite get an understanding of how the lawyer managed to convert an inheritance tax in effect back into an estate tax. Will you give us a concrete instance?

Mr. OSGOOD. Let us take an estate of, let us say, a hundred thousand dollars. Suppose there is only the widow, and suppose the man does provide for one relative by giving that relative the income of \$10,000. At 5 percent that would be \$500 a year.

Let us assume that the expenses of administration are 7 percent. That would take \$7,000 out of the \$100,000.

He would provide in his will that all of the inheritance taxes would be paid by the executor as a part of the general cost of administration of the estate.

Let us assume that the inheritance taxes amounted to \$10,000, which is just a figure plucked out of the air. That reduces the estate from \$100,000, assuming there is no shrinkage in the disposal of assets, to \$90,000. Then you take out the expenses of administration. Let us say they are \$7,000. That brings it down to \$83,000. Then you take out the \$10,000 specific bequest to provide for the relative, which brings it down to \$73,000. All of the charges of the estate come out of the \$73,000. If it had not been for that provision in the will, here is what you would find: The relative might have been a distant relative taking a lower exemption and a higher rate on account of the degree of consanguinity and would have to pay a tax out of the \$10,000 legacy left.

The testator did not want that diminished. He wanted it all to be held for the benefit of the relative. But he was perfectly willing to provide that the inheritance taxes be paid out of the general estate, so that the widow would have what was left, after taking out the taxes and expenses.

Mr. LEWIS. Thank you for a very clear statement. That situation would arise only when there was a will which was expressly devoted to achieving it.

Mr. OSGOOD. Yes. Some wills are silent.

Mr. LEWIS. In the case of ordinary inheritances, it would not arise?

Mr. OSGOOD. In the case of an intestate estate, or of a will remaining silent, it would not be converted from an inheritance tax to an estate tax.

Mr. LEWIS. Do you know of any reason, if there be real evasion, defeating public policy, in the concrete case you have suggested, why the revenue act itself, in serving its purposes of public policy, should not prohibit such provisions in wills?

Mr. OSGOOD. I do not see why they should. I cannot see that public policy is disturbed in any way by such a situation. The Government, after all, tries to obtain the tax with the least expense to the taxpayer. By that I mean with the least cost of realization. That is of mutual advantage, both to the taxpayer and the Government. We have all seen from the period of 1930 to 1933 great diffi-

culty of the Government even getting its taxes out of estates on account of shrinkage.

Mr. LEWIS. Let us see whether there is a real evasion there. I think it important that the committee should understand this situation. An inheritance tax is imposed. The testator has provided for the payment of it out of the general estate. The amount of it will be determined by the payment actually made to the distributee?

Mr. OSGOOD. No, it will be determined exactly as if it were paid by each inheritor. There is no difference in the method of determination and therefore there can be no evasion.

Mr. LEWIS. Then the gross result——

Mr. OSGOOD. Is exactly the same so far as the Government is concerned. There can be no evasion.

Mr. LEWIS. I fail to see the evasion.

Mr. OSGOOD. There is not any evasion. It is simply a more expeditious method of administration, and simpler.

Mr. VINSON. You referred to shrinkage of estates, Mr. Osgood. Have you any suggestions to make as to special treatments where that shrinkage is involved?

Mr. OSGOOD. I have two suggestions at the present time that might be constructive. One would be to lengthen the period over which realization might be made without the Government charging interest. I do not know whether this is practicable or not.

No interest is charged, as you know, up to a year. After that time, if you ask for a postponement, you may receive it under the provisions of the statute by paying 6-percent interest.

Mr. VINSON. For a period of 7 or 8 years?

Mr. OSGOOD. My recollection that under the present law it is limited to 2 or 4 years. But the provisions have changed so many times I have forgotten.

Mr. VINSON. I think it is 8 years.

Mr. OSGOOD. It may be 8 years. There is one other suggestion that the chamber is not putting forward as its own suggestion at the present time, but I am very much in favor of it personally, and I think people who administer estates are generally.

Let me say at the outset that I have not the slightest interest in any way, shape, or form, in any insurance company. I am not interested in any one of them. But I do think that such a fortuitous tax as an estate tax, or an inheritance tax, which is bound, to a large extent, to be an incursion into capital which cannot be paid out of income, should be permitted to be insured against.

You can insure against it at the present time by taking out policies of insurance provided the person who dies is insurable during his lifetime. But the moment he does it he has to pay an additional Federal estate tax upon the insurance taken out and the cost piles up to such a point that he cannot afford to take out insurance.

Now, the answer is that the States have long recognized that situation and they do not tax insurance, except in some States where insurance is taxed when it goes into a trust.

Mr. VINSON. What do you mean by taking out a policy of insurance?

Mr. OSGOOD. Let me give you a concrete example. A client of mine died recently owning two pieces of real estate in the city of Chicago, in the downtown section.

His cash on hand—that is, his liquid assets in the shape of cash and securities—were not sufficient probably to pay more than one-fourth of his estate taxes. Therefore, it meant that in order to pay those taxes real estate had to be sold at forced sale.

All of us know enough about the real-estate business to know that when an estate comes on the market, and it is generally known from the inventory that there is not enough of liquid assets to pay the taxes, a buyer is going to be able to pick up that real estate at a forced-sale figure. In other words, it is a forced-sale market.

I think the individual in that case should be able to take out insurance to cover the amount of his probable estate tax.

Mr. VINSON. That is, the individual who owned the property?

Mr. OSGOOD. The individual who owned the property; yes.

Mr. VINSON. Before his death—

Mr. OSGOOD. Should be permitted, in my mind, to insure free of tax, because it aids the Government to collect the tax. It provides a liquid fund by which the Government gets its tax without causing an enforced sale of the property.

Mr. VINSON. Who is the insured?

Mr. OSGOOD. The person who owned the property at death, the decedent.

Mr. VINSON. That would mean this: He would have no notion as to exactly when he was going to pass over into the Great Beyond.

Mr. OSGOOD. He knows his expectancy. Suppose he is a man 60 years of age. He knows that practically he has got 10 years to live under the tables. He says that in 10 years he knows he has got to meet these charges. Under the present law he knows what they are. He says he will take out insurance to protect himself so that his heirs will not be forced to sell the real estate.

Mr. VINSON. The shrinkage that I had in mind was this. I do not think the American citizen has gotten to the point where he would figure that he is going to die with his estate in that condition.

Mr. OSGOOD. It is done every day in the week.

Mr. VINSON. Everybody, generally speaking—

Mr. OSGOOD. It is done every day in the week.

Mr. VINSON. Well, if it is done every day in the week, why does not that answer your problem?

Mr. OSGOOD. Because he figures on all those contingencies every day in the week.

Mr. VINSON. I misunderstood you. You do not mean that he is taking out insurance policies every day in the week.

Mr. OSGOOD. Some of them do today and pay the high rates.

Mr. VINSON. Generally speaking, they do not.

Mr. OSGOOD. Generally speaking, they do not because of the high rates of tax.

Mr. VINSON. The point I had in mind as to shrinkage was the shrinkage that develops between the date of death and the payment of taxes.

Mr. OSGOOD. The date of realization; exactly.

Mr. VINSON. That is what I would like to hear you on.

Mr. OSGOOD. Of course, if you are on an up market—

Mr. VINSON. Well, if you are on an up market, you have not any shrinkage.

Mr. OSGOOD. You have not any shrinkage, of course; except such shrinkage as comes from the forced sale of real estate. Even on an

up market you would have a slow market there. But it is on your down market that you have your situation.

Mr. VINSON. Have you any suggestions to make of any special treatment to be given under present estate taxes or inheritance taxes that would take into consideration the shrinkage between the date of death, when the property is appraised, and when the tax is paid?

Mr. OSGOOD. Yes. I gave you two suggestions. There is the taking away of the interest charge, 6 percent, for instance. Suppose your average shrinkage is 10 percent—

Mr. VINSON. I caught that. What is the other suggestion?

Mr. OSGOOD. That only leaves you 4 percent shrinkage.

Mr. VINSON. Yes. What is your other suggestion?

Mr. OSGOOD. The other suggestion is insurance. You can insure against shrinkage.

Mr. VINSON. The committee, in 1932, as I recall, had a suggestion that was written into the bill, and as I recall it, in amended form it passed the House. Are you familiar with that?

Mr. OSGOOD. Yes. That was to relieve a very difficult situation that existed.

Mr. VINSON. It was to take care of the fact that if a man or woman had died prior to the debacle of 1929, the Government ought not to get all of the estate in payment of the estate tax. At that time we took the value of the estate at the time of death, and then we went forward 18 months subsequent to the date of the death.

Mr. OSGOOD. Yes.

Mr. VINSON. And took the value of the estate at the date of death for the denominator and the value of the estate 18 months after date as the numerator. We took that fraction and multiplied the value of the estate at the time of death by that fraction, or the taxes that would be collected upon the value of the estate at the time of death, by that fraction.

Mr. OSGOOD. I thought at the time and under the circumstances that it was a very good method of relief. Of course, it works exactly in the opposite way in an up-market.

Mr. McCORMACK. That is what was intended, that is what it should do?

Mr. OSGOOD. Yes; because it was a relief measure.

Mr. VINSON. Is there anything unfair about that, if a person does not pay his taxes? Is there anything particularly unfair about it?

Mr. OSGOOD. I have given that a lot of consideration.

Mr. VINSON. Or do you think now that the bottom has been reached and we are starting on the upward trend, that such a policy should not be adopted?

Mr. OSGOOD. I think if such a policy were adopted, it should be adopted as a relief measure pure and simple under circumstances that would cause it to give relief. I do not think it should be adopted in such a way as to cause added taxes and an added burden that nobody could compute.

Mr. McCORMACK. I cannot follow you there. If it is a fixed law, it is fair all around.

Mr. OSGOOD. Of course, it is fair coming and going, there is no question about that.

Mr. McCORMACK. When a man dies, I understand the law is, if he has a stock interest, in a stock that is listed on the exchange, they

accept the value of the stock as listed on the exchange as the value at the time of death. That is very artificial. It is very unfair.

Take 1929; stocks were 2 and 3 and 4 times their actual value.

Mr. DISNEY. Twenty times.

Mr. McCORMACK. Yes; and perhaps more. I was just trying to be conservative. Certainly a person who owned that stock in 1929 could not get rid of it, and in which there was a sharp decline—if that person died his estate might owe the Government money. Or the heirs of the estate would owe the Government money.

It seems to me that if a person were allowed to set the figure as of the book value, the same as it is on unlisted stocks—

Mr. OSGOOD. I do not think your provision is unfair. I thought at the time that it was the best solution that could be worked out. I worked on that provision myself. But let me say this: It seems to me there is one principal defect in it, and that is, if you make it mandatory that the value shall be taken 18 months after date, then you are postponing the administration of the estate.

Mr. McCORMACK. Yes; there was a provision for valuing the estate 18 months after death.

Mr. VINSON. With reference to your statement, Mr. Osgood, that is not so at all, because the person certainly would have the right to pay taxes at any time after the date of death. He could pay them as of the date of death.

Mr. OSGOOD. I think he should have.

Mr. McCORMACK. In other words, I have been of the impression that there should be some more equitable consideration given to the shrinkage of estates and the increase in value of estates, both from the viewpoint of the heirs as well as from the viewpoint of the Government. I think some better rule could be written into the law, which would be more equitable.

Mr. OSGOOD. I think the one that Mr. Vinson spoke about was the best one I have ever seen worked out.

Mr. McCORMACK. I know that Mr. Vinson worked on that at the time. We collaborated with him. I thought it was a very fine provision.

Mr. VINSON. Of course, I do not want to take any credit—

Mr. OSGOOD. Well, you say the necessity of it.

Mr. VINSON. I do not take any credit for that at all. But it occurred to me that it was eminently fair, and if it was fair then it seems to me that it is just as fair today. I think it would have been written into the law except for an unfortunate situation that arose with reference to the time when a very wealthy man died.

Mr. OSGOOD. I appreciate that.

Mr. VINSON. But that did not cause me to change my views as to its fairness then or its fairness now.

Mr. OSGOOD. Let me say this, Mr. Vinson. Mr. Graves, the president of the New York State Tax Commission, I think is one of the best inheritance tax men in the country. He and I have given a good deal of thought and conversation to this same subject. They worked out a rule in New York State by which they took the average value for a period of 6 months before and 6 months after the date of death. We thought it would work out all right provided it were done on a permissive basis, and not a mandatory basis.

It is fair enough to everybody, and you can work out an average price between the 6 months before and after. In other words, it gave a year's range of valuation. If you had an up-market, you got an average; and if you had a down-market, you got an average.

Mr. VINSON. It seems to me that it would be much more difficult to ascertain that value the 6 months before the death than you would as of the date of death.

Mr. OSGOOD. As a matter of fact, if you are dealing with a listed security, it is not difficult.

Mr. VINSON. I know, but you have other kinds of property. It seems to me that that would open up an opportunity for evasion, just commenting offhand.

Mr. OSGOOD. Well, for differences of opinion.

Mr. VINSON. If you have it as of the date of death, that is one date. It is hard enough to ascertain it on that one date.

Mr. OSGOOD. That is fortuitous, of course.

Mr. VINSON. And then if you had a reasonable period next following the death, so far as I am concerned, from my present impression, and use that fraction for the payment any time between the date of death and the 1-year period, or the 18 months period, whichever you choose, and if you had an up-market it would be to the interest of the estate to have it paid as quickly as possible.

Mr. OSGOOD. Yes.

Mr. VINSON. And Uncle Sam would have gotten his money. And if their guess was that the upward trend would continue, Uncle Sam might lose something, but if they made a bad guess and market value declined, then, of course, they were responsible for the loss of the money.

Mr. OSGOOD. Alluding to this insurance matter that I spoke about, Mr. O'Connor has just handed me a very short extract from the Alberta law. It reads:

Insurance money being the amount of any life-insurance policy effective by a deceased person on his life and expressly earmarked for the purpose of paying duty imposed by this act, except as to any excess of those moneys over the amount of the duty.

In other words, apparently Alberta exempts the amount of insurance that is required to pay the tax, and taxes the rest of it.

Mr. LEWIS. Will the gentleman yield for a moment there?

Mr. VINSON. Yes.

Mr. LEWIS. Would you not also add a proviso that if there were no shrinkage, then the insurance money should be taxable as part of the estate?

Mr. OSGOOD. I do not think so, necessarily. There are other considerations, Mr. Lewis, than shrinkage.

Mr. LEWIS. Do you not provide an opportunity otherwise for one desiring to, to escape taxation on his estate, in part?

Mr. OSGOOD. I do not see how he is escaping taxation, if you get all of the tax that was originally imposed without the matter of insurance.

What I am getting at is, that the impact of an estate tax is very often such, and so uncertain as to time, that it is a casualty that might as well be insured against as any other casualty of any character.

Mr. McCORMACK. You said a moment ago something about insurance free of tax, and you said that they do not take out insurance because of the high Federal tax. The high Federal tax on what?

Mr. OSGOOD. In relation to the insurance itself.

Mr. McCORMACK. In other words, what you mean is that the premium for the insurance for the payment of a future estate or inheritance tax should be deductible from gross income?

Mr. OSGOOD. No. I mean that I would like to have insurance free of tax, just as is the case in States. There is only one State, I think, that taxes insurance. I believe that is the State of Arkansas.

Mr. McCORMACK. Insurance when—during life or after death?

Mr. OSGOOD. Existing at the time of death. Insurance existing at the time of death should not be treated as a part of the estate. You see how Alberta treats it. They do not go that far.

Mr. McCORMACK. The circumstances there might be somewhat different, because that is broadly descriptive. That is more or less life insurance, is it not?

Mr. OSGOOD. That is life insurance. That is what I am talking about.

Mr. McCORMACK. You are talking about life insurance?

Mr. OSGOOD. Nothing but life insurance.

Mr. McCORMACK. I had an idea that you were talking about the right to insure prior to death for the payment of the estate tax.

Mr. OSGOOD. Suppose, for instance, that I own real estate. It is a slow asset. I do not want it sold. I want my family to keep it if they can, to take the income from it, and also because I think it may appreciate in value later on. I think that is good policy. I figure that my real estate is worth a couple of hundred thousand dollars, and let us say that my taxes are \$50,000. I take out an insurance policy on my life for \$50,000, payable to my estate, and it provides the ready cash to pay the tax.

Mr. LEWIS. Suppose there is no shrinkage. Should not the \$50,000 be counted as part of the estate?

Mr. OSGOOD. I do not think so.

Mr. LEWIS. All right, that is all.

Mr. OSGOOD. Let me say this, Mr. Lewis, that the experience of all the States has persuaded them to exempt that kind of insurance from taxation, except in a few cases where it is held in trust.

Mr. LEWIS. Maybe they were not fully instructed on the subject, as I was not, sir, until your testimony.

Mr. McCORMACK. One further thought I would like to get your reaction on. Assume that there is a social problem in the future. There is no question but that if we keep on the way we are, there might some time in the reasonable future be a social problem. I am not prepared to say there is. I would like to have some evidence on it one way or the other. It would be rather interesting to me. But, from my observations, I would like to see people get the benefit of their own individual initiative. I know that I do. I assume my proper burdens and obligations of taxation, and so forth. But we are dealing with human nature. We are dealing with the strength and weakness of human beings, individually and collectively, as a nation.

Of course, there is that tendency. Sometime it may have to be controlled or regulated for the general welfare.

Would not the privilege of insuring against future estate taxes or making provision directly or indirectly for that purpose tend to aggravate the social problem?

Mr. OSGOOD. I do not think so. It has not done so in the States.

Mr. McCORMACK. I know, but looking into the future, and viewing things from a practical angle, trying to look at them honestly and coldly, as we should, it would have a tendency to preserve the physical property that a person had during life, and which they had built up; that is true?

Mr. OSGOOD. I think that it should be preserved as far as reasonable.

Mr. McCORMACK. I think the time has arrived when people are seriously considering the solution of the social problem. Even if you disagree that the time has arrived, you cannot overlook the fact that it presents a question that calls for practical consideration.

I doubt very much if a suggestion that would tend to aggravate it would be appropriate.

Mr. OSGOOD. Well, of course, whether it would or would not aggravate it is going pretty far into the realm of theory, is it not?

Mr. McCORMACK. The purpose would be to preserve what somebody had built up during his lifetime.

Mr. OSGOOD. Preserve it against a violent wrench, principally shrinkage.

Mr. McCORMACK. I agree with you that fortunes passed on which are productively used render a public service. Fortunes passed on that are not productively used disappear in a short while.

Mr. OSGOOD. Take an illustration of this kind. Suppose I buy a house. I figure that I can pay off a 60-percent mortgage on that house, with good health, in a period of 10 years. But I know very well that if anything happens to me, my wife is not going to be able to pay off that mortgage and retain the home. I take out insurance to protect her in the event of my death. Why should insurance taken out to pay debts in the form of taxation be any different in its social aspect than insurance taken out for any other contingency of that character?

Mr. McCORMACK. You give an illustration, of course, which does not cover the social aspect that I had in mind. But the social problem, if one exists—and if it does not now it will in the future—is the large concentration of property.

Mr. OSGOOD. I think the social problem is the question of passing on a reasonable amount of inheritance. There is your social problem.

Mr. McCORMACK. That all comes into the general picture.

Mr. VINSON. Mr. Osgood, would you earmark the insurance money for the purpose of paying taxes?

Mr. OSGOOD. I think probably I would.

Mr. VINSON. Well, you would have to; would you not?

Mr. OSGOOD. I think probably we would have to.

The CHAIRMAN. There are no further questions, and we thank you for your appearance and the information you have given to the committee.

The CHAIRMAN. The next witness is Mr. C. E. Alvord, of Washington, D. C., representing the United States Chamber of Commerce. You will have 10 minutes, Mr. Alvord.

STATEMENT OF E. C. ALVORD, OF WASHINGTON, D. C., REPRESENTING THE UNITED STATES CHAMBER OF COMMERCE

Mr. ALVORD. Mr. Chairman and gentlemen: As some of you know, my official service began back in 1919. Congress paid my salary for several years, and then I went to the Treasury, and the Treasury paid it for several years longer.

For these reasons, I am going to differ in three respects from the procedure usually followed by witnesses appearing before you.

In the first place, I am going to ask that the statement which I have handed to the reporter be considered as having been read; and ask the privilege of having the same prerogative which each of you gentlemen has (and I assume will exercise) that I not read the statement. In the second place, you may interrupt me at any time you wish, as far as I am concerned. The real purpose of appearing before you will be lost, in large part, unless you do that.

The CHAIRMAN. You have 10 minutes.

Mr. ALVORD. I am perfectly willing to stop in 10 minutes.

In the third place, I would like very hurriedly to call to your attention two or three considerations. My prepared statement is directed solely toward the proposed increase in the surtax rates, and I would like to call your attention to three matters which I think are deserving of particular consideration in the imposition of additional surtaxes.

The first problem is one with which all of you are very familiar. It is the problem concerning tax-exempt securities.

You know that the job of preparing revenue bills would be very much simplified if we did not have a constitution. There are many provisions in the present laws which otherwise would not be there.

Mr. VINSON. You do not favor abolishing it, do you?

Mr. ALVORD. No, sir, I do not. I am looking at it from the point of view of the ease of the job.

There are many provisions in the revenue laws which are necessarily there by reason of the Constitution. There are numerous, fine questions of policy which hinge upon constitutional considerations.

If I recall correctly, this committee reported favorably, in 1921, and again in 1923, an appropriate amendment to the Constitution to eliminate tax-exempt securities, whether issued by the Federal Government or by the States. Until that constitutional amendment becomes a part of our Constitution you gentlemen must consider the effect of tax-exempt securities, not only the securities which are now outstanding, but the securities which might be issued prior to the adoption of the constitutional amendment.

I worked out a very simple illustration of that which you will find in my statement, and which I think should impress upon you the fact that the proposed increase in surtax rates will not produce more revenue. I do not know how the estimates were made; I am not particularly concerned about that. I am merely giving you my views.

The case I rather hurriedly worked up—and I think my statistics are accurate—starts with a \$2,000,000 investment under the prospect of earning \$500,000. Then I assume that the unusual happens, and that the \$500,000 is earned as expected.

I take you through the various taxes, Federal, State, and local, and I show that of the \$500,000, there remains in the investment, after the payment of taxes, not \$500,000 but \$81,000.

Now, gentlemen, I am not going to invest in any enterprise, and I am very confident that none of you will invest in any enterprise, even though you have the greatest of confidence that you can earn 25 percent upon your investment before you pay the taxes, if you have less than 4 percent left.

Then I suggest that you take one more step in order to place yourselves more nearly in the position of a man considering an investment. Let us assume that this man, after he got his \$81,000 net in his bank account, unfortunately died.

And under the conditions which are assumed in that study, and which are rather simple and very probable ones, I show you that there is left less than \$18,000 to that man's son.

Mr. VINSON. What is that \$18,000? That is not regarded as the estate?

Mr. ALVORD. That is the net after the new inheritance tax, the existing estate tax, and other taxes are paid.

Mr. VINSON. That is on 1 year's income?

Mr. ALVORD. The \$81,000 was all there was left out of the 1 year's income. That was in the bank account.

Mr. VINSON. I want to make it clear that that was the residue of 1 year's income and not the estate.

Mr. ALVORD. Not the \$2,000,000; no. I am glad you have point that out. That is the net which remained, and which determines the nature of the investment that might be made.

Mr. McCORMACK. Is not that an extreme case?

Mr. ALVORD. No, sir; that is a very real case, and I will submit it to your experts. There is nothing unusual about it, Mr. McCormack.

Mr. McCORMACK. I think it is unusual.

Mr. ALVORD. I will put it to you in this way. This is a real case.

Mr. McCORMACK. How many such cases are there in the country?

Mr. ALVORD. There are numerous cases like that.

Mr. McCORMACK. Of people who make a \$2,000,000 investment?

Mr. ALVORD. That assumption, of course, is made to show you that he has not anything left.

And I have an additional assumption, Mr. McCormack, which is also very real, but which I overlooked. Had he made a second investment and sustained a loss, you would have taken more money from him than he could conceivably have made.

Mr. McCORMACK. I do not want to express a conclusion, because I am hearing the evidence.

Mr. ALVORD. I will be very glad to defend those figures before anybody.

Mr. VINSON. You make a comparison here in your statement in reference to income yield for 1927, when the maximum surtax was 20 percent, applying to the \$100,000 bracket.

Then you deal with the yield in 1929, when you say there is a slight modification in rates.

You say that in 1926 the yield was \$880,000,000, in 1927 exceeding \$900,000,000, and in 1929 over \$1,000,000,000.

Now, you deal with 1935, with the maximum surtax rate of 59 percent, applying to the million-dollar bracket, and you say that the tax return was \$525,000,000. Do you think that is a fair comparison?

Mr. ALVORD. Those figures are in there in a bona fide effort, purely for one purpose, to show you the actual limitations upon revenues from individual taxes.

Mr. VINSON. I am asking you, do you think that is fair?

Mr. ALVORD. Certainly it is.

Mr. VINSON. Why did you not use the 20-percent rate on the 1935 yield, if you want to deal with the returns, and then you would have made a fair comparison. I would like for you to set forth in this record what the yield would be for 1935 if the 20-percent maximum rates had still obtained. Will you do that?

Mr. ALVORD. I will, Mr. Vinson, but it will not be worth anything to you, because again, in my opinion, that 20-percent maximum surtax rate for aggregate individual taxable incomes would not have been as shown; for 1935 it would have been very different. I cannot say what those changes would have been. That is why I put those figures in there.

Mr. VINSON. You recognize that not only do you take into consideration the percentage, or the rates of tax, but you take into consideration the base that you use in arriving at the tax?

Mr. ALVORD. Certainly.

Mr. VINSON. And certainly in 1926, 1927, 1928, and 1929, your net income was materially larger, and that tax did not have any connection with a 59-percent rate. It was due to the different economic condition of the country, was it not?

Mr. ALVORD. Mr. Vinson, my purpose is to make precisely that point. That is just the point I would make.

Mr. VINSON. That is correct, is it not?

Mr. ALVORD. I think so, yes.

Mr. VINSON. That is, that was due to the general economic condition.

Now, then, we go into the depression, and go to the bottom, and start under 1935.

What I would like for you to put in this record is a statement as to what would be the yield if the 1926, 1927, 1928, and 1929 rates obtained, because you will agree with me that the fiscal year 1935 was the first year where you had the rates of the 1934 act in effect; that is correct, is it not?

Mr. ALVORD. Yes, sir. Mr. Vinson, if you will give me your committee reports on the 1932 and 1934 acts I can give that to you right now. I will be glad to insert it in the record.

Mr. ALVORD. The point I want to make is that if you are going to collect taxes on individual income, do it by increasing the aggregate taxable income and not by confiscating taxable incomes or driving them into tax-exempt securities.

Do you not see that every dollar that is put into tax-exempt securities means that the base of individual incomes is decreased by that amount? I do not care what your rate is, you will not get an additional penny in revenue.

Mr. VINSON. What is the attitude of the United States Chamber of Commerce in regard to tax-exempt securities?

Mr. ALVORD. That I do not know, because I happened to be in the Government at the time the amendments were under consideration.

Mr. O'Connor tells me the attitude of the chamber of commerce is for the constitutional amendment as applied to future issues.

Mr. VINSON. At the time the matter was being pressed in Congress in the Sixty-seventh and Sixty-eighth Congresses—

Mr. ALVORD. They were for it. Mr. O'Connor and Dr. Moore both assure me that the chamber of commerce has favored the constitutional amendment since 1921. It was not adopted.

Mr. VINSON. Of course, when we have under consideration legislation that even your chamber might at one time have been very strongly and very explicitly favoring, legislation such, for instance, as the Reciprocal Tariff Act,—when we have a bill before our committee incorporating every particular recommendation contained in the resolution adopted by the United States Chamber of Commerce, and they put it on the fly page of the report, as I recall, of a volume of one of their proceedings, or something of that kind; when we had the bill before us, a bill which included every single one of their major objectives which they proposed included in the bill, then Mr. James A. Farrell, representing the United States Chamber of Commerce, came down and said that the Chamber wanted something else. Of course, they can change their minds.

Mr. ALVORD. Mr. Vinson, I do not think you will find that the failure of the adoption of the constitutional amendment which has been discussed was attributable to the attitude of the Chamber of Commerce.

Mr. VINSON. I did not say that; I do not think that that had much influence.

Mr. ALVORD. I predict that you will have some difficulties in having it ratified.

But my point is, do not embark upon a program which will drive all taxable income into nontaxable income until you get the amendment adopted.

The CHAIRMAN. How could you find enough tax-exempt securities on the market to take up the money now invested in industry and transfer it to tax exempt securities? Where would you find those tax-exempt securities?

Mr. ALVORD. You cannot do it. I want to show you, however, some results.

The CHAIRMAN. How could you do that if there are none on the market?

Mr. ALVORD. You have outstanding now roughly fifty billion dollars worth of tax-exempt securities.

The CHAIRMAN. You are not talking about securities of the Federal Government?

Mr. ALVORD. Oh, no. You could deny tax exemptions for Federal bonds and notes, if you saw fit.

Mr. VINSON. Do you recommend that?

Mr. ALVORD. Not so long as there are other tax-exempt securities on the market.

The CHAIRMAN. You do not think it would be advisable for all the money invested in industry to be invested in tax-exempt securities?

Mr. ALVORD. No, sir. Also, those who cannot abandon their investments in business enterprises will be very severely discriminated against, and that discrimination will be in favor of those who will be willing to withdraw money from active business enterprises and shift it into tax-exempt securities.

The CHAIRMAN. If a large majority of people got out of business and those who remained had to supply the various commodities and necessities, do you not think that the demand would be so much

greater than the supply that they would soon be making a big profit? That is a ridiculous argument, it seems to me.

Mr. ALVORD. I do not think so.

The CHAIRMAN. The people have got to be able to get supplies of food and clothing, and the demand on those people who remained in business would be so much greater than the supply that they would soon have a monopoly, and they could raise the prices to any figure they wanted to, and the people would have to buy their supplies. The people would not go naked, and they would have to have food and the other things that they need in a modern civilization. All those people who were still in business would have a monopoly in the market and they could fix their own prices.

Mr. ALVORD. But the people who are going to get out are not a large number of small investors; they are going to stay in.

The CHAIRMAN. The people who remained in business would have the market of the whole United States without much competition, and they would soon become big investors. The fallacy of that argument can be shown right from the very beginning.

Mr. ALVORD. But the people you are driving out——

The CHAIRMAN. We have heard that question raised in the discussion of every tax bill we have under consideration. They say, "You are going to drive everybody out of business."

Mr. ALVORD. You heard it from me when I was with you, and you have heard it from all the experts who have ever appeared before you. And up to the present time you have always listened to it.

The CHAIRMAN. We have not always written the tax bill that those who have come in and told us what they wanted written. We have listened to them, but we have not heeded them.

Mr. ALVORD. In considering your surtax rates——

The CHAIRMAN. Every tax bill that we have had before us has been fought, and every bill to increase taxes has been fought. You know that. Every informed person knows that, and you are one of the best informed men in the country on this subject.

Mr. ALVORD. I still repeat, if through heavy taxes you take away the opportunity for profit from the persons who are able to finance enterprise, then you take away from these persons their incentive to invest. In addition to that, a taxpayer is denied his losses, if he loses.

The CHAIRMAN. If you take away from the universe the law of gravitation, then you are bound to have chaos. But who proposes to do that?

Mr. ALVORD. Under the case I gave you there is extracted from a \$500,000 profit all but \$81,000.

The CHAIRMAN. Oh, well, that is an extreme case.

Mr. ALVORD. No; it is not.

The CHAIRMAN. But we have not done that yet.

Mr. ALVORD. But I am talking about the proposed rates.

The CHAIRMAN. Who has proposed any rates? Will you answer that?

Mr. ALVORD. I do not want to quibble.

The CHAIRMAN. When you say the proposed rates, what do you mean?

Mr. ALVORD. I do not want to quibble about it, Mr. Chairman.

The CHAIRMAN. I am not quibbling about it. You say the proposed rates. To whom do you refer? Will you mention anybody to

me who has proposed any definite rates? Of course, you can take a hypothetical case, as you have done, but who has proposed any of the rates that you refer to?

Mr. ALVORD. Mr. Chairman, the rates which I have used here are the rates which appear in tables 15, 16, 17, 18, and 19 in the estimates. We have not any bill before us. We do not know what rates are proposed.

The CHAIRMAN. We have not proposed any.

Mr. ALVORD. I have taken only the published rates.

The CHAIRMAN. You do know this, that we have not proposed any rates?

Mr. ALVORD. They are the pending rates.

Mr. McCORMACK. They are not pending.

The CHAIRMAN. That is another hypothesis. You have reached an erroneous conclusion, because we have not proposed any rates.

Mr. ALVORD. Then I will say that my estimates and the statement I have made are based upon certain figures which I saw in a certain document, which I understand is before this committee.

The CHAIRMAN. Not as a proposal submitted by anybody.

Mr. ALVORD. I agree, it is not a proposal; they are not pending, but I took the only figures available to me, and I took them in good faith.

Mr. McCORMACK. And you set up a straw man.

Mr. ALVORD. No; I think not.

Mr. VINSON. You took the ones which suited your purpose best?

Mr. ALVORD. No; I did not.

Mr. VINSON. You did not take the minimum rates. You say you took the rates found in tables 13, 14, 15, and so forth?

Mr. ALVORD. Yes.

Mr. VINSON. One of them was the rate used when you are dealing with surtaxes?

Mr. ALVORD. As to these rates which appear in this document, there is not a great deal of difference. They start at 54 percent. That is the lowest on \$100,000, and they boost the present rates but very little.

Then they go up to 90 percent on incomes up to \$10,000,000.

Mr. VINSON. You have different bases, do you not?

Mr. ALVORD. No.

Mr. VINSON. They start at the same point?

Mr. ALVORD. No; they do not start at the same point. They start at the same bracket.

Mr. VINSON. That makes an entirely different picture as to income and as to burden.

Mr. JENKINS. I take it that your figures were taken from hearings before this committee, and published by this committee?

Mr. ALVORD. That is right.

Mr. VINSON. If you take one estimate based upon one schedule, according to your statement, the yield would only be \$5,000,000?

Mr. ALVORD. I have to be very honest with you. I started working this thing at 5 o'clock last night, so I did not get all of the various computations under the various classes of rates completed. I would be very glad to do so, and I think you will find that it is **not a straw man**.

Mr. VINSON. I am taking your statement. There is no chance to get away from that. In your statement you say: "You will note that the estimates of increased revenues, as shown by the schedules before your committee, range from \$5,100,000 to \$36,600,000." The illustration you gave did not touch the estimates on the schedule that would bring in \$5,000,000.

Mr. ALVORD. I will be very glad to do that. As a matter of fact, they will, Mr. Vinson, I think, because your surtax comes under the \$5,100,000 estimated total.

Mr. VINSON. Do you mean to say that the illustration you gave concerning the \$2,000,000 investment was based on the schedules of the Treasury's estimate upon which they had the sum total of \$5,000,000 increased return?

Mr. ALVORD. I spoke a little bit too hurriedly, because that table begins with the surtax at a million.

Mr. VINSON. I know you did.

Mr. ALVORD. I do not think there will be much difference. I will be glad to give you a computation under each of the tables.

Mr. COOPER. Just a question on this matter of tax-exempt securities.

It is nothing new for us to hear people come in and say that all the wealth of the country is going to be driven into tax-exempt securities. I do not think a statement of that kind does anybody any credit. I am not applying this to you.

Mr. ALVORD. I did not make that statement.

Mr. COOPER. No; you did not; but you know we frequently hear it.

Mr. ALVORD. Yes; I have heard it.

Mr. COOPER. People come here, whose views we have a right to respect, and say that all the wealth of the country is going to be driven into tax-exempt securities. It is absurd on the face of it, is it not?

Mr. ALVORD. Certainly.

Mr. COOPER. It can only be a very small percentage, at any event.

Mr. ALVORD. A small, but very important percentage.

Mr. COOPER. It can only be a very small percentage that is put into tax-exempt securities for the very obvious reason that there is no market for any considerable percentage of the wealth of the country in tax-exempt securities.

Mr. ALVORD. You know what happened with the Liberty bonds. The Liberty bonds today, the four-and-a-quarter bonds that have been called for repayment—and the general counsel from the Treasury can check me on that statement—were quoted at 116, to yield less than 2 percent. Why?

Mr. VINSON. It is the credit of the Nation; that gives him \$2 that comes to him in his need.

Mr. COOPER. Certainly.

Mr. ALVORD. It is the equivalent of \$4.

Mr. COOPER. That is entirely different from the point I have in mind. I am endeavoring to show the fallacy, as I see it, of the statement repeatedly made that the wealth of the country is going to be driven into tax-exempt securities, because there are not enough tax-exempt securities offered to the public to really make any appreciable dent in the wealth of this country; is that not true?

Mr. ALVORD. Unless I am very much mistaken, there have been issued in the course of the last 2 weeks over a hundred million dollars worth of tax exempts.

Mr. VINSON. How many of those were refunding bonds?

Mr. ALVORD. I suppose a number of them were, although, as a matter of fact, very few were refunding bonds.

Mr. COOPER. How many of those were refunding bonds?

Mr. ALVORD. Suppose that all of them were—as a matter of fact——

Mr. COOPER (interposing). If they were refunding bonds, it simply means that the money was turned over again.

Mr. ALVORD. I assume that the investor here had to choose between tax-exempt securities and business, and they had a chance to bid on them. Of course, there comes a time when the price becomes too high, and then it may go back into business.

Mr. COOPER. If they are refunding bonds, of course, that simply means that somebody held the bonds when they were paid off, and new bonds covering the same debt were issued and sold to somebody else, or, perhaps, to the same people who held the original bonds.

Mr. ALVORD. Yes, sir.

Mr. COOPER. Of course, we all know, as a matter of fact, that there is not the opportunity to invest anything like a large amount of money in those tax-exempt securities, because they are not available for purchase. Is not that correct?

Mr. ALVORD. Of course, that depends on what we mean by a reasonable amount of money. The money I am talking about is money that those persons would have who are capable of financing business enterprises substantially.

Mr. COOPER. I know that bonds are bought every time they are offered. They sell them readily, and issues are always oversubscribed many times. Certainly people who have wealth are anxious to buy them. They want to invest in securities that are tax exempt, even though they yield a small amount of return, but what I am getting at is the fact that there is not much volume of that, or no important volume in comparison with the wealth of the country.

Mr. VINSON. When was this 110 quotation on $4\frac{1}{4}$ percent Liberty bonds?

Mr. ALVORD. I have forgotten, but you will find that quotation not so long ago. If you will take a morning paper and look at it, I think you will find some figures.

Mr. VINSON. How long has it been in the immediate neighborhood of that price?

Mr. ALVORD. For some time. My guess is it has been that way ever since the Revenue Act of 1932.

Mr. VINSON. You do not think that the President's message with reference to the proposed tax had anything to do with the increase in the market price of those bonds?

Mr. ALVORD. You will recall that tax-exempt bonds did jump a point and a half or two points after the President's message.

Mr. VINSON. Is that a statement you vouch for?

Mr. ALVORD. I think that is true. I have not checked it. I do not know about Liberty bonds, because I keep my money in business. That quotation was 117 instead of 110.

Mr. VINSON. At least, it can be said that the public has not been materially disturbed as to the future of our Government or the credit

of the Government in the sale of Liberty bonds, due to the President's message.

Mr. ALVORD. I am one of those who do not believe that the credit of the Government is seriously impaired, even at the present time.

The CHAIRMAN. What was that statement?

Mr. ALVORD. I said that I was one of those who do not believe that the credit of the Government is seriously impaired at the present time.

Mr. VINSON. It has not been impaired because of the President's message.

Mr. ALVORD. I am glad to add that to my statement.

(Mr. Alvord submitted the following statement for inclusion in the record.)

I have been engaged in the practice of law in the District of Columbia since resigning from the Treasury Department about 5 years ago. As some of you know, I have assisted in the preparation of various revenue laws since the war, in the capacities of assistant legislative counsel, employed by the Congress, and of special assistant to the Secretary of the Treasury. My service in the Treasury embraced some experience in the administration of the revenue laws. It is a privilege to appear before you today, as a member of the Committee on Federal Finance of the Chamber of Commerce of the United States.

THE PROPOSED INDIVIDUAL SURTAX RATES

My presentation will deal with the suggestions for higher rates upon individual incomes. The proposals to impose high rates upon individual incomes, like the proposals to increase substantially the Federal death duties, are opposed by our committee and, in our judgment, should be opposed by small and large business interests—not by reason of the direct effect of the suggested taxes upon the few or the many, but (aside from questions of elementary justice to the individual) because of the effects upon present and future business operations.

Possible increases in existing surtaxes are found in various schedules which are before your committee.

Table 15 outlines increased surtaxes ranging from 60 percent to 80 percent; the increases apply to incomes of \$1,000,000 and over; and the estimated increase in revenue is \$5,100,000.

Table 16 outlines surtaxes ranging from 54 percent on incomes of \$150,000 to 80 percent on incomes over \$7,500,000; and it is estimated to increase revenues by \$22,100,000.

Table 17 outlines surtaxes from 55 percent on incomes of \$100,000 to 80 percent on incomes exceeding \$7,500,000; and an increase in revenue of \$28,900,000 is estimated.

Table 18 outlines surtaxes ranging from 57 percent on incomes of \$500,000 to 80 percent on incomes over \$10,000,000; and the estimated increase in revenue is \$6,900,000.

Table 19 outlines surtaxes ranging from 54 percent on incomes of \$150,000 to 75 percent on incomes over \$10,000,000; with an estimated increase in revenue of \$20,400,000.

Table 20 gives surtaxes ranging from 56 percent on incomes of \$100,000 to 90 percent on incomes exceeding \$10,000,000; and the estimated increase in revenue is \$32,600,000.

The surtax rates of the present law (the Revenue Act of 1934) are set forth in a table furnished to the committee by Mr. L. H. Parker, chief of staff of the Joint Committee on Internal Revenue Taxation; and I shall not reproduce them. It will suffice to point out that the existing surtax rates begin at 4 percent on incomes of \$4,000 and range upward to 59 percent upon incomes in excess of \$1,000,000.

You will note that the estimates of increased revenues, as shown by the schedules before your committee, range from \$5,100,000 to \$36,600,000. If the increases are to apply solely to incomes above \$1,000,000, as inferentially suggested in the President's message, the revenues of the Government would be increased by only \$5,100,000. As has been well stated by your chairman, your committee is interested from the the revenue point of view in the proposals pending before it. If this were not the case, I would suggest that your committee report, in the event that you adopt the proposals, merely incorporate the Presi-

dent's message. We may then obtain a decision upon another constitutional question—whether there are any limitations upon the powers of Congress “To lay and collect taxes * * * to pay the debts and provide for the common defense and general welfare of the United States.” My personal confidence in the members of this committee assures me that the pending proposals will be appropriately considered and acted upon.

Nevertheless, I cannot but point out that, even assuming that the highest estimated yield under the highest stated increases would actually be realized, the additional revenues of \$32,600,000 will not go far toward offsetting a \$3,000,000,000 to \$4,000,000,000 deficit. I might also question in passing whether the estimated yields have taken into consideration the effect upon individual incomes of the proposed graduated tax upon corporate incomes, the proposed tax upon dividends received by corporations, the proposed new inheritance taxes, and the proposed increase in gift taxes. Inasmuch as I have no personal knowledge as to the basis of the estimates, I only ask whether other consequences—such as the certain shift to tax-exempt securities—have been considered in estimating the yields from the proposed surtax rates.

EXAMPLE OF APPLICATION OF PROPOSED RATES

Perhaps I can best illustrate the effect of the proposed surtax rates by a simple example.

Suppose a wealthy man is approached with a proposition to invest \$2,000,000, at a probable profit of \$500,000 per annum, before taxes. He accepts; a corporation is formed; and the \$2,000,000 is invested in a factory and in productive enterprise. Let us also suppose that the anticipated profit of \$500,000, before taxes, is realized the first year. What taxes will be paid?

There will be the real property taxes, corporate franchise taxes, a State income tax, and other miscellaneous taxes, probably aggregating \$90,000. Then, the Federal income tax. Under the proposed rates, the corporation will pay approximately 15 percent, or slightly more than \$60,000. There will be left for distribution to the investor, in the form of a dividend, the sum of \$350,000.

Now, as an individual, this investor must pay to State and local governments taxes upon his intangible property (his stock in the corporation), and State income taxes on the amount he has received, both aggregating approximately \$50,000. He now has \$300,000 left, out of which he must pay an income tax to the Federal Government. If his other income was \$1,000,000, he would pay as high as 73 percent under some of the rates now under consideration, or a tax in the amount of \$219,000.

He has left, after the payment of Federal, State, and local taxes, out of \$500,000 of earnings, the sum of \$81,000, representing an actual profit of almost exactly 4 percent upon his investment, as compared with the earnings before taxes of 25 percent.

Need I ask would he make the investment? Why should he not buy tax-exempt bonds, from which he could obtain a yield of at least as much, receive a reasonably certain income, avoid many of the risks and costs of investment, and also avoid all the hazards and worries of conducting or supervising a business.

But let me take one more step. Let me assume that death overtakes him shortly after he has deposited his \$81,000 profit in the bank. He leaves a net estate of \$10,000,000. For the sake of simplicity, I assume that he leaves his entire estate, after payment of taxes, to his son. The \$81,000 profit (which, of course, has been included in the \$10,000,000 net estate) must bear a tax under the proposed rates of about 78 percent. And, of the original \$500,000 profit, the son will receive \$17,820.

INDIVIDUAL INCOMES AS SOURCE OF REVENUES

Mr. Parker incorporated in the record of the present hearings tables showing the number of individual income-tax returns filed with the Federal Government in net-income classes beginning at \$100,000, for the years 1924, 1929, 1930, 1932, and 1933, and tables showing the net incomes returned for these years, by the same net-income classes. A cursory examination of his tables will be sufficient to show you the severe limitations upon obtaining substantial revenues from these individuals. Mr. Parker can likewise furnish to you all available statistics with respect to all individual incomes. I am confident that he will confirm my statement that substantial increases in revenues can be found only by substantially increasing the number of individuals required to pay taxes; substantially increasing the normal tax rate, and substantially increasing the surtax rates upon the

so-called "lower" and "middle" brackets. But even then, and viewed solely from the point of view of possible revenues, individual income taxes cannot be made to carry, and should not carry, more than their fair share of the aggregate Government requirements. And, furthermore, individual income taxes cannot be forced or be expected to produce a reliable, stable revenue of substantial amounts.

HIGH RATES DO NOT PRODUCE INCREASED REVENUES

Our experience under prior revenue laws shows conclusively that high income-tax rates do not produce, and cannot be relied upon to produce, correspondingly high revenues. In 1926, with a maximum surtax rate of 20 percent applying to the \$100,000 bracket, and with taxable net income defined more equitably than in the recent revenue acts, the individual income tax yielded approximately \$880,000,000. In 1927, with similar rates, the yield exceeded \$900,000,000. In 1929, with a slight modification in rates, the yield was over \$1,000,000,000. In 1935, with a maximum surtax rate of 59 percent applying to the \$1,000,000 bracket, and with the deductions from gross income materially and arbitrarily limited, individuals paid only \$525,000,000 to the Federal Government. If an income tax upon individuals is to produce substantially high revenues, the aggregate incomes of individuals must be substantially increased and, as a corollary, every measure tending to restrict enterprise and opportunities must be avoided.

Why do not high rates produce correspondingly high revenues? The answer is obvious.

A very substantial portion of the revenues from our individual income taxes is derived from capital gains. A capital gain is realized, generally speaking, only when the capital asset is sold. No individual, under ordinary circumstances, will sell a capital asset if but a small percentage of his profit will be available to him after payment of taxes. The Government is unavoidably subject to the rule of "adverse selection".

But more important, high rates drive capital from income-producing enterprises. In the illustration I gave, no one doubts the decision which the prospective investor would have made. He would not have risked his capital in an income-producing enterprise, paying salaries and wages, purchasing raw materials, transporting his products, and giving retailers and other opportunities for profit. He would have purchased tax-exempt securities.

THE PROBLEM OF TAX-EXEMPT SECURITIES

Your committee is fully appreciative of the problems presented by tax-exempt securities and the severe limitations which they impose upon revenue-producing opportunities. The battles over the proposed constitutional amendments, in 1921 and 1923, are not too far removed.

I do not overlook the President's recommendation that a constitutional amendment be adopted which would abolish the tax-exempt privileges. I merely suggest that, before tax policies such as those now proposed are adopted, that amendment should first become a part of our Constitution. Even then the problem will not have disappeared entirely. No one proposes to take from outstanding securities their tax-exempt privileges. Consequently, there will be available to investors nearly \$50,000,000,000 of securities which are now outstanding and which are wholly or partially exempt from taxation. Of this amount, approximately \$21,000,000,000 is entirely exempt from the Federal income tax. Doubtless, during the period necessarily ensuing prior to the ratification of the amendment, additional tax-exempt securities would be issued, affording further means of avoiding excessive taxes, with a corresponding adverse effect upon revenues and upon business.

Both the Government and business must compete with tax-exempt securities. And that competition is most sensitively affected by tax rates.

CONSEQUENCES OF HIGH TAXES

Perhaps I have pointed out sufficiently the unfortunate consequences necessarily resulting from the imposition of high rates upon incomes. The incentive of the individual is discouraged. Adequate funds for the normal and necessary expansion of business are not available. Funds will not be risked in new enterprises. Our economic history shows, I think beyond question, that the employment of our increasing population, and the maintenance of our standards of living, have depended to a very great extent upon expansion and new enterprise.

Furthermore, and certainly not of least importance, permit me to remind you that a dollar paid in taxes is necessarily withdrawn from the business world. It will not earn income the following year, save in exceptional cases. The consequences of withdrawing 3, 4, or 5 billion dollars from active employment in income-producing activities must not be disregarded.

HIGH RATES AND THE ADMINISTRATION OF OUR TAX LAWS

This committee realizes that the definition of taxable net income is admittedly an exceedingly arbitrary one; and that the accurate computation of income tax liabilities is an extremely complicated and at times nearly impossible task. Under reasonable rates, the inequities of the revenue laws do not strike so severely; and errors of law and fact in the computation of tax liabilities are not so costly. Consequently, tax liabilities are settled without serious controversy. But increase the rates substantially. Inequities become harsh and unbearable, and errors of computation involve tremendous sums. The administration of the law, always difficult at best, becomes practically impossible. Prompt and final determinations—to which every taxpayer is entitled—are unattainable. An otherwise competent staff soon fears to accept responsibility for decisions. Tax controversies are driven into the courts, with consequent delays, uncertainties, and costs.

The administration of any income-tax law must be founded upon the integrity and cooperation of the taxpayers. Delays, controversies, demands for the payment of exorbitant sums, unanticipated liabilities, and a realization of the many inequities, do not contribute to that cooperation.

CONCLUSIONS

In conclusion, it is respectfully submitted that—

(1) The adopted policies of this committee should not be abandoned. A revenue bill is necessarily a comprehensive measure, to be proposed only after adequate opportunity for research, study, and consideration.

(2) The proposed increases will drive capital from income-producing activities and enterprises into tax-exempt securities. From the long-term point of view, they will not produce more revenue. On the contrary, substantial decreases in revenues will result.

(3) A liberalization of our present revenue law, considered from the point of view of equity to taxpayers, of restoration of business activity, and of an increase in Government revenues, is of greater importance at this time than the imposition of increased but unproductive rates.

The CHAIRMAN. The next witness is Mr. George H. McCaffrey, representing the Merchants' Association of New York.

STATEMENT OF GEORGE H. McCAFFREY, REPRESENTING THE MERCHANTS' ASSOCIATION OF NEW YORK

Mr. McCAFFREY. I appear on behalf of the Merchants' Association of New York, a commercial organization representing some 4,000 of the leading business enterprises of New York City.

The Merchants' Association believes the enactment at this session of Congress of any of the proposed plans now under consideration by the committee or any other proposal for the so-called "distribution of wealth" would be most imprudent and unwise. The association, therefore, urges that new taxes be deferred until such taxes may be duly considered and enacted as part of a properly coordinated plan for balancing the Federal Budget.

Let me say at the outset the Merchants' Association, while conscious of the heavy tax burden under which this country is now laboring, nevertheless recognizes that we are in a situation where additional taxation is inevitable, if the country is to avert disaster.

In the 5 years ended June 30, 1935, the United States Government expended over and above its ordinary receipts approximately \$12,-

400,000,000. Between December 31, 1930, and June 30, 1935, the gross public debt less balance in the general fund increased from \$15,700,000,000 to \$26,800,000,000.

Mr. HILL. From what date did you figure the increase?

Mr. McCaffrey. From December 31, 1930.

This is a process that cannot be carried on indefinitely. Obviously somewhere ahead, if we continue with these deficits, there is a cracking point where United States Government securities will cease to be attractive and our banks, which are now loaded up with them to the extent of 35 percent of their investments, will again be in a difficult situation. Where that cracking point is, we do not know. Some think it will come soon; some, later. The part of prudence requires that we play on the safe side and guard the credit of the United States by balancing its Budget at the earliest possible date.

If this tax plan appeared to be really an effective means for balancing of the Federal Budget, it would be entitled to consideration on its merits, but this program is not one for balancing the Federal Budget and it was not put forth as such. According to the estimates of the Treasury Department the Government deficit for the fiscal year ending June 30, 1936, will be approximately \$4,000,000,000. The schedules submitted to this Committee by the Secretary of the Treasury showed estimated revenues ranging from \$118,000,000 to \$901,000,000 a year. Other estimates fixed the amount of revenue that Congress might possibly obtain by these proposed taxes at around \$340,000,000 a year. Obviously, that is not balancing the Budget! It is not even making an important step toward balancing the Budget. Even at the highest estimated yield the Budget would still be about \$3,000,000,000 out of balance.

In recommending to this committee that it refrain from proposing any tax program such as has been suggested during the present session, let us suggest very strongly that this country solve the problem of balancing its Budget on the basis of economics rather than under the whip of politics. The fact that such slogans as "Share the wealth" and "Social justice" have a wide appeal to many individuals should not be a sufficient motive to induce Congress to rush into a taxation plan which might mean destruction of wealth instead of distribution of wealth and which, however attractive at the outset, might in the long run mean the denial of social justice.

When we subject our budget to economic rather than political scrutiny it at once becomes apparent that balancing it involves two factors—outgo and income. The merchants' association believes that the first logical point of attack is the matter of expenditures. In Government no less than among individuals extravagance eventually spells ruin. Such homely virtues as thrift and economy are not yet outmoded. We believe that both in the ordinary and the extraordinary expenditures of the United States Government there are opportunities for great savings.

The CHAIRMAN. Do you favor the balancing of the Budget by cutting expenditures?

Mr. McCaffrey. Yes, sir.

The CHAIRMAN. Now, you have just mentioned the fact that the estimates this year indicated a deficit of \$4,000,000,000.

Mr. McCaffrey. Yes, sir.

The CHAIRMAN. If you will indicate to us how we can balance the Budget, or how we can make up that \$4,000,000,000, you will greatly favor the committee.

Mr. McCaffrey. Obviously, you cannot make that complete reduction at one time.

The CHAIRMAN. But you spoke of balancing the Budget by cutting expenditures.

Mr. McCaffrey. As far as we can; yes, sir.

The CHAIRMAN. As far as we can, of course.

Mr. McCaffrey. I also stated that we recognize that additional taxes are inevitable.

The CHAIRMAN. But you accented the importance of balancing the Budget, and you want to balance it by cutting expenditures. You say that this year there will be a deficit of \$4,000,000,000 on account of expenses this year. Now, I want you to show us where we can cut \$4,000,000,000 from the expenditures this year.

Mr. McCaffrey. It cannot be done; but we want to make a start.

The CHAIRMAN. You advocate something that you say yourself cannot be done.

Mr. McCaffrey. We should balance the budget by reducing expenditures over a time——

The CHAIRMAN (interposing). You say we should do it this year.

Mr. McCaffrey. No, sir; you misunderstood me.

The CHAIRMAN. You have not shown where we can save one-fourth of it, or where we can save \$500,000,000 of it. It would certainly help us if you could show us where the reductions could be made.

Mr. McCaffrey. I would be glad if I could.

The CHAIRMAN. I wish you would show us how it could be done. You say that we should do a thing, and I would be glad if you would tell us how it can be done. You carry us to a place, and show us the world, but do not tell us how we can obtain it.

Mr. McCaffrey. I will come to that more definitely later on.

The CHAIRMAN. I hope so.

Mr. McCaffrey. Where shall such savings be made? That is a matter for study and most serious consideration by those who have all the records of the Government at their disposal. Considering the ordinary expenditures, we know, for instance, that in 1929, exclusive of debt retirement, they amounted to about \$3,300,000,000. We have not yet been able to obtain a separation of the ordinary from the emergency expenditures in 1935, but we do know that the Treasury's estimates for 1936, made, I understand, last January, indicate general expenditures, exclusive of debt retirements, of nearly \$3,800,000,000. This is \$1,000,000,000 in excess of the actual figure for 1934 and close to \$500,000,000 above that for 1929. Would not this fact alone indicate that some savings are possible in the so-called general expenditure of the Government?

When the \$4,000,000,000 appropriation for public works was under consideration the Merchants' Association advised Congress that in its judgment the amount was larger than could be wisely expended in a single year and asked that it be reduced. We believe that the events which have since transpired have justified the correctness of that conclusion. The delays in making allotments from this fund and the changes in the plans would indicate that the expenditure of \$4,000,-

000,000 could not be prudently administered in a short time. Is it not likely that savings are possible here? We in New York hear of repeated instances where people prefer to remain upon public relief rather than to take private employment. That is a situation which must be corrected, if we are to restore ourselves to a normal, economic existence.

Are there other ways of saving money? We would like someone to make real investigation of the number of employees on the public pay rolls today and determine whether they are all needed. We would like someone to determine whether Government salaries are fairly related to the salaries received by those who are paying the taxes. But above all the Merchants' Association believes that the Government should refrain from undertakings unnecessarily competing with private industry which can attend to them better and more efficiently. If Government will get out of industry and stop competing with private industry, private industry will be in a position to absorb many of the unemployed.

Action along the lines above indicated should be the first step in balancing the Budget. It should be taken at once. When that has been done consideration can legitimately be given to the taxation necessary to make up whatever deficit remains. That we must have relief for those without employment goes without saying; but when that relief extends to the point of preventing any of these people from taking steps to help themselves it is uneconomic. We must furnish an incentive to work, not an incentive to idleness. The Merchants' Association believes that when a tax plan is drafted for what should be its only conceivable purpose, that of balancing the Federal Budget, it should embody the following principles:

1. Any tax plan should spread the tax load fairly over all who are able to pay, in order to encourage tax consciousness and a feeling of responsibility toward the Government and interest in its administration. In this connection we would like to commend for the study of this committee the report on the British tax system, submitted to Mr. Doughton and Secretary Morgenthau last November by a special committee headed by Mr. Magill.

Britain has made long strides toward the restoration of economic stability. While her wealthy people have been taxed heavily, her entire population has helped to bear the load. In our judgment the situation in the United States is so serious that it is going to require some sacrifice on the part of everybody. The United States may certainly profit in devising its own future course by studying how Great Britain has worked out the problem.

2. The tax plan should be of a nature that will not retard the development of private industry to which we must look for the reemployment of those employables who are now out of work.

3. Tax plans should be of a nature that will offer the least possible obstacle to investment of capital in those enterprises offering the greatest possibility of absorbing the unemployed.

4. The tax plans should be so constructed that they will not, in seizing the wealth today, destroy the sources of income to which Government has been accustomed to look for its revenues.

If the committee examines the program which has been presented, it will find that it does not conform to these principles.

1. Consider for a moment the proposed corporation tax. In penalizing mere size, without regard to investment, rate of profit, or number of shareholders, it would operate with the greatest unfairness and decrease the amount available for distribution by those very corporations which have the largest number of small shareholders. The additional load on the earnings of these corporations will tend to decrease the value of their bonds held by the banks and insurance companies and private investors. In short, this plan will impair business confidence when every attempt should be made to increase it. It will tend to limit investment in those channels which offer the greatest possibility of providing private employment.

2. Consider the proposed taxes on estates and gifts. It has already been pointed out to this committee that this tax may easily reach a point where it is absolutely confiscatory and that nonliquid producing properties which are now successful because they are in family management may be broken up and thrown into virtual liquidation in order to settle the Government's accounts.

3. Even in imposing income taxes on the wealthy we must guard against reaching the point of diminishing returns against forcing wealth, otherwise available for investment in productive enterprise, to take refuge in tax exempt securities.

In view of these facts the Merchants' Association asks that Congress refuse to enact any of these plans at this session.

Any action taken this summer, when Congressmen are naturally anxious to return to their homes, must of necessity be hasty action. The matter is so important that it deserves the very best thought that can be brought to bear on it. Deliberations should be calm and as free from political suggestion as anything undertaken by Congress can be.

The basis of the deliberations should be economics. By enacting a hastily conceived wealth distribution plan today we may tear down sources of employment and confidence of investors, which we ought to be building up.

Very earnestly the Merchants' Association urges that the public welfare requires a comprehensive program for balancing the budget rather than haphazard action.

The CHAIRMAN. We thank you for your appearance.

At this point the committee will take a recess until 1:30 o'clock. We have three witnesses on the calendar for this afternoon.

(Thereupon, the committee stood in recess until 1:30 o'clock, p. m.)

AFTER RECESS

The committee reconvened at 1:30 p. m., on the expiration of the recess.

The CHAIRMAN. The committee will be in order.

The Chair is informed that Mr. James L. Donnelly, of the Illinois Manufacturers' Association, will appear to take the place of Mr. Ray Wantz, of Rockford, Ill. Mr. Donnelly, will you please give your full name and address, and the capacity in which you appear, to the stenographer?

STATEMENT OF JAMES L. DONNELLY, EXECUTIVE VICE PRESIDENT ILLINOIS MANUFACTURERS' ASSOCIATION, CHICAGO, ILL.

Mr. DONNELLY. Mr. Chairman, my name is James L. Donnelly. I am executive vice president of the Illinois Manufacturers' Association, Chicago.

The Illinois Manufacturers' Association is a general industrial organization comprehending approximately 3,000 members—manufacturing industries of all types and sizes, and engaged in the manufacture of a large variety of products; and although what I have to say relates particularly to Illinois, in view of the fact that the manufacturing situation in Illinois is fairly typical of that which obtains in other industrial States, my observations might be regarded as being applicable to industry generally, and particularly in industrial States typified by the State from which I come.

We wish to direct our observations to those features of the tax program now under consideration which relate to increases in the tax rates on the income of corporations.

It is respectfully submitted that the plan to graduate the rate of corporation income taxes upward, solely upon the basis of the amount of income, is unsound and unwarranted for the following reasons:

1. Such plan will operate as a regressive tax.

In considering the effect of this proposal it is necessary that corporations be divided into various classes.

The first class should be the small closed or family corporation, namely, those corporations who have their stock so closely held that frequently it is dominated by one individual. These corporations may have very substantial incomes, and because their stock is held by so few individuals, their income is distributable only among a very few people, and, as a rule, in much larger amounts per individual shareholder than is ordinarily the case with a large corporation. Such corporations are generally operated for the benefit of their individual owners in the same manner as an individual enterprise. Ordinarily there is no market value for the stock of a small corporation, which consequently does not offer an attractive investment to the small or average investor.

The medium-sized corporation usually operates on a conservative basis. The stock holdings are generally held within a particular community and the benefits of the corporation are distributed and derived by that community.

The large corporation usually has many thousands of stockholders, no individual stockholder having control of the enterprise, and, with stockholders situated throughout the United States and in many foreign countries, is comprised of people of all walks of life. The employees of most of our large corporations are likewise stockholders, so that they are interested in the welfare of their particular organization from the standpoint of an employee as well as from that of having a proprietary interest.

To illustrate, an examination of a moderately large corporation indicates that they had a total of 7,200 stockholders, and the average stock holdings per individual were approximately 42 shares; not to exceed 5 percent of the stock was held by any one individual, and not to exceed 14 percent by the family of any individual. The majority

of the stockholders were located in all parts of the Nation and from all stations in life (school teachers, doctors, farmers, clerks, ministers, and so forth) so that an increase of corporate taxes must necessarily constitute a direct reduction in the amount of income available for distribution to these people. In this manner such an increase would readily take the effect of a direct tax against the revenue of individual property holders.

2. The taking of the surplus earnings of large corporations would jeopardize the investments and impair the savings of millions of persons. The demands on large corporations whose shares are widely held are so great in times of need that they cannot be operated safely without the building up of very large sums from their surplus earnings to be availed of in times of need.

One's individual welfare depends entirely upon that person's ability to create wealth, to accumulate a competence to provide for the future, and there is very little difference in a corporate entity from that of an individual from the standpoint that it is necessary, for the perpetuation of a corporation, that it have certain reserves to meet unexpected contingencies, and the conservative corporation, like the conservative individual, has set aside for certain purposes certain definite portions of its income, and, in relation to its capital, very few of these are unwarranted, some of these purposes being:

1. To provide dividends for the years in which there are no earnings.

2. To enable them to maintain the pay roll without the curtailment of employment.

3. To properly maintain its fixed or capital assets.

There is much difference in opinion as to what warranted and necessary surplus may be, yet one only needs to examine the records of those organizations and enterprises which are now in the process of reorganization proceedings under 77B to see that had many of these companies followed a consistent practice of distributing earnings, together with proper provision for their future welfare and the contingent possibilities, there would have been no necessity for such a law as 77B.

Today, the practice among large corporations of building surpluses is much more prevalent than ever before.

It is realized not only that these surpluses are needed to carry on business in depressed times, but it is realized that these surpluses are necessary to sustain the payment of dividends to great bodies of stockholders who are dependent upon them for their livelihood in times of depressed earnings.

An example is found in the 1932 reports of the American Telephone & Telegraph Co. to its stockholders, in which it was said:

For many years an important consideration back of the financial policies of the company has been the fact that regular dividends, representing, as they do, a return on actual cash invested, are vital to the day-by-day living of the vast majority of its hundreds of thousands of stockholders, more than half of whom are women.

And in a further statement in its 1933 report that—

Its policy has enabled a stability of return to stockholders during the depression that has in thousands of cases helped to provide the bare necessities of life for those who have invested their savings in the business.

It must not be overlooked that millions of persons in this country, in this time of depressed earnings, are and have been for years de-

pendent, in part or in whole, for their livelihood upon accumulated surplus of our many very large and well-managed corporations; and it must not be overlooked that these drains upon these surplus funds of these corporations render it essential for the future of these people and for the future of the industries of this country and the employees dependent upon them that these surplus funds be restored as quickly as possible.

3. Would deprive the general public of the benefits resulting from large investments in plant facilities.

It is common knowledge that some of the principal industries of this country, such as the steel industry, the cement industry, and the durable-goods industries, generally, are "prince or pauper" industries.

The inherent nature of these industries, requiring as it does huge investment in plant facilities to care for "princely" years, and huge surpluses to carry them over in "pauper" years, make them peculiarly susceptible to injury through such a plan of graduated corporation income tax as is now proposed.

The very nature of their products makes it impossible that they be so constituted that they can fold up their tent and steal away in times of depression, as can be done to such a great extent by a large part of the smaller consumption-goods industries.

They are big by necessity, if efficiency and economy in the public interest is to be realized. This bigness brings them within what would mean the high corporation income-tax rate class in good years, whereas, if their average income over considerable periods of time on the investment their millions of owners have made in them were to be compared with the average earnings over similar periods of time on the investment made by the relatively fewer owners of securities in other enterprises, it would be seen that the scheme of graduating the corporation income tax upward solely with relation to the amount of the income of the corporation is unsound, not only for the reason that it will operate regressively as to stockholders or owners, but because it will operate to deprive the public of the advantage of public gains from large corporations in industries where only large corporations can be expected to be as efficient and as economical in operation as well as in the interest of the public.

The primary requisite to improved business conditions is reduction of unemployment. Any substantial and permanent reduction in the ranks of the unemployed will result only from stimulation of productive enterprises. One of the principal obstacles now to increase in business activity is the tax burden of unprecedented severity now being carried by all taxpayers, individual and corporate. We accordingly respectfully suggest that the efforts of all those concerned with business recovery should be directed to ways and means by which real reductions in present tax burdens may be accomplished.

The CHAIRMAN. We thank you for your statement.

Mr. COOPER. Mr. Donnelly, I understood you to say that you represent some 3,000 manufacturers of the State of Illinois?

Mr. DONNELLY. That is correct; yes, sir.

Mr. COOPER. In that group I assume there are quite a number of manufacturers in the smaller groups that would be classified as smaller corporations?

Mr. DONNELLY. I would say that perhaps 85 percent of that 3,000 employ less than 100 persons.

Mr. COOPER. Well, as to the size?

Mr. DONNELLY. It is relatively small.

Mr. COOPER. Relatively small. Now, do you understand that this proposed graduated corporation tax would be a direct benefit to the smaller ones?

Mr. DONNELLY. We are opposing it because it is wrong in principle.

Mr. COOPER. I see.

Mr. DONNELLY. Moreover, I think it is reasonable to assume that some day the small ones may be large ones. Certainly that is their ambition.

Mr. COOPER. Do you think that if the smaller ones of your State realized that they would really get a reduction in tax under this proposed graduated plan, you would be here authorized to speak for them in opposition to the bill?

Mr. DONNELLY. Yes, sir.

Mr. COOPER. Even though they are going to get a direct benefit?

Mr. DONNELLY. Yes, sir; because I think they would realize that that advantage would probably be only temporary. As you know, these rates are changed from time to time by succeeding sessions, not only of Congress but of other legislative bodies.

Mr. COOPER. It is your position, then, that even though they get a substantial advantage in decreased rates, they would still be opposed to the plan?

Mr. DONNELLY. They would be opposed to this plan as it now stands.

Mr. DISNEY. Mr. Donnelly, do you have any substitute to offer for the plan proposed?

Mr. DONNELLY. As a practical matter, I think it is very doubtful whether the income of corporations should be taxed by the Federal Government at all. I think there is a very considerable number of well-informed persons—

Mr. DISNEY (interposing). But in all probability the situation that you speak of will never come. Have you any substitute for the proposed plan here, a graduated tax?

Mr. DONNELLY. Well, the objective of this program, as I understand it, is to raise more revenue. Assuming that the amount of revenue that it is intended to raise by this program is required, it seems to me that an earnest consideration should be given to ways and means by which savings in that amount might be accomplished in present expenditure.

Mr. DISNEY. That is what we are working at here every day in the year. Have you any suggestions along that line? Do you want the relief fund or the R. F. C. disposed of, or the naval aviation, or the Army appropriations?

Mr. DONNELLY. It is very difficult to be specific.

Mr. DISNEY. Or the Veterans' Administration? I would like to have somebody suggest where we can cut down these expenses, because I would like to do it.

Mr. DONNELLY. Well, it is very difficult, without having access to figures, to be specific upon that subject. But I think there is a general feeling among the people that I undertake to represent that very substantial economies could be effected in the amount of funds that are now being expended for relief.

Mr. DISNEY. I would like to find somebody who says something definite, instead of generalities.

Mr. DONNELLY. For instance, in the matter of public works, I think that earlier in these hearings the fact was brought out that during the 5-year period between 1930 and 1934, inclusive, industries in the United States paid out to employees an amount estimated at approximately six billions of dollars over and above the amount that would have been required to be paid out for the maintenance of those industries. That is, you might say that six billion dollars was paid out to employees who would otherwise have been the subjects of charity.

Now, there is an amount that is the equivalent of the 5 billion dollars which the Government intends to spend for the purpose of unemployment relief through the medium of public projects. It would seem that there should be many opportunities for accomplishing very many economies in the expenditure of that fund. Generally speaking, I think that is true of proposed expenditures of such large amounts for that purpose, particularly when the records seem to prove that the expenditure of funds for unemployment relief in the way of public works projects does not provide nearly as many opportunities for employment as are sometimes alleged to exist.

The CHAIRMAN. It is perhaps true that the program has not provided as much as might have been anticipated or estimated; but still you realize that there was a large number of unemployed before the Public Works program was undertaken that industry was not taking care of, and even now, with the Public Works program, there is still quite a number of unemployed.

Mr. DONNELLY. Yes, sir.

The CHAIRMAN. Now, inasmuch as industry could not do it, and the States were not financially able to do it—they did not have the money to their credit—and the local jurisdictions, the counties, cities, and towns, could not do it, then what source was there for help other than the Federal Government? Of course, the Government never wanted to get into that field; but it has been brought out here again and again that there was imminent danger—so many people out of employment, hungry, naked, and destitute. Something had to be done, and the States and the cities were not doing it; industry was not doing it, and there was no other responsible agency that could do it. Is not that a fact?

Mr. DONNELLY. I do not question the motives of those who are undertaking—

The CHAIRMAN (interposing). No; I am just talking about the situation that existed.

Mr. DONNELLY. It is just a difference of opinion with regard to the amount that should be expended at this time for that purpose.

The CHAIRMAN. Suppose we reduced it to what you would consider the minimum amount. Let us say, just for argument's sake, that Congress is incapable of dealing with this, or does not have the information, even after a study of a month or a year, endeavoring to obtain information from all directions. Grant that we cannot deal with it. Then, if you criticize that, you ought to be able to offer us an alternative in the way of some constructive suggestion as to how the matter can be taken care of. To criticize is the easiest thing in the world; but when a concrete proposition is before the public, and you come to oppose it, then in lieu of that you ought to be able to offer something constructive. Anybody can criticize and object. That is easy.

Mr. DONNELLY. The only constructive suggestion that is it possible to make, without reference to facts and figures in order to cite specific instances wherein economies, in our opinion, might be effected, would be the general observation that all of these expenditures that are being made for the various purposes—the principal one being for the purpose of unemployment relief—must be paid out of taxes. A substantial portion of those taxes must be paid by productive enterprise. I think it is quite often overlooked that industry is subject to taxation from other bodies besides the Federal Government—

Mr. DISNEY (interposing). Let me interrupt. If the \$4,000,000,000 appropriation puts three and a half million men to work, is not that pretty good business?

Mr. DONNELLY. Of course, I think it is doubtful whether that many men will be put to work.

Mr. DISNEY. The question I asked you was: If it does, is not that fairly sound business for those millions of men who are out of work?

Mr. DONNELLY. I would be unwilling at this time to assume the premise that you are suggesting, and that is that that many men will be put to work; and even if they were, I think that it is quite probable that the expense to the Government, and indirectly to the taxpayers, for providing work for those men in that manner would be out of proportion to the benefits secured.

Mr. DISNEY. Would you just continue to feed them?

Mr. DONNELLY. Well, I think that if a real effort were made to reduce governmental expenses, you would find that industry would be so stimulated that many of these men who are now the recipients of public charity would be absorbed by industry.

Mr. DISNEY. Then you must have something in mind on the reduction of governmental expenditures. What governmental expenditures would you reduce?

Mr. DONNELLY. I think I would start out by making a very careful survey of the purposes for which this approximately five billion dollars is to be used. I would ascertain whether or not, from the standpoint of engineering experience, the program that is to be followed in the expenditure and allocation of those funds is in fact calculated to offer employment to the number of men that you have just indicated.

Mr. DISNEY. Now, \$1,145 per man per year is a fairly good, businesslike basis to go out on, is it not?

Mr. DONNELLY. Well, that is just an abstraction that I do not believe will work out in actual operation.

Mr. DISNEY. You just do not want the taxes, do you?

Mr. COOPER. He does not believe in anything that is being done, and has nothing to offer in place of it.

Mr. DONNELLY. No; I do not want to be so understood. I hope I have not given that impression.

Mr. DISNEY. I am not trying to get you in that position here, but that is the position you are in.

Mr. DONNELLY. I think that everybody recognizes the good motives of those who have this serious problem of unemployment to take care of, and we do not want to be regarded as being just destructively critical; but I do think that it is generally felt among the business interests throughout the country that the amount of money

that is being expended for that purpose is out of proportion to the amount that should be required.

Mr. DISNEY. Do you know that the ordinary budget is balanced, and that this goes to the emergency budget?

Mr. DONNELLY. Well, of course that involves a difference of opinion as to what the budget really is; as to whether or not it is good accounting to split it up into two parts, emergency and ordinary.

Mr. DISNEY. I am disappointed that such an intelligent man as you appear to be does not have a single constructive suggestion.

Mr. DONNELLY. My observation in reply to that, and in conclusion, is simply this—may I ask you a question in reply to that statement?

Mr. DISNEY. Yes.

Mr. DONNELLY. Do you feel that every earnest, honest effort has been made by this present Congress and by this Administration to effect every reasonable economy in the expenditure of public funds?

Mr. DISNEY. Yes, sir.

Mr. DONNELLY. Well, I might say that if we were all convinced that that were true, we then would be in a position to criticize constructively. But unfortunately we are not so convinced at the present time.

Mr. COOPER. You think these things are being done without any thought or consideration at all?

Mr. DONNELLY. No, sir; I do not.

Mr. COOPER. Do you not concede that the Government is applying the best talent and the best thought and attention to these matters that it is capable of applying?

Mr. DONNELLY. I concede that the motives of the Government in its approach to this problem are entirely honest and commendable.

The CHAIRMAN. You indicate that those for whom you speak and with whom you are affiliated are of the opinion that if the Government would cease its public works activities and these large expenditures that are necessary to take up the slack of unemployment, that private industry would then come in and give employment to these unemployed people. That is what you state in substance.

If that be true, before the Government came into this, before the Government imposed any of these taxes or incurred any of these obligations, private enterprise and industry certainly had every opportunity and were waited upon patiently and long, to do that very thing. And in place of things getting better, conditions got worse.

Why did they not to it before the Government took these things over, as a matter of necessity; before these obligations were increased, and before taxes were increased? Can you give us that information? They had the opportunity and if they did not do it then, why did they not? And if they could not do it then, how could they do it now?

Mr. DONNELLY. I believe I stated that during the 5-year period from 1930 to 1934, inclusive, industry paid out—

The CHAIRMAN (interposing). That is no answer to the question that I asked you.

Mr. DONNELLY. I was intending to lead up to a more direct reply.

The CHAIRMAN. Just start with the direct reply and do not lead up to it.

Mr. DONNELLY. Industry was making a real and a successful effort to do that.

The CHAIRMAN. But more people became unemployed all the time. The burden of charity was getting heavier all the time. The condition of the public was getting more desperate all the time. The public mind got into such a state that it was perilous to the country. How much longer could we wait for industry to come in and reverse things? How could we wait without incurring the risk of neglecting to do those things that it was the Government's duty to perform?

Mr. DONNELLY. An answer to that question must necessarily be speculative. It is our feeling that while it was essential that the Government come in and assist in the effort to look after the unemployed; and while it was entirely proper that they do come in and participate in a discharge of that responsibility, it is very doubtful whether the extent to which the Government has gone into it, and the manner in which they are now going into it, are justifiable in view of the conditions that now obtain.

The CHAIRMAN. Has there ever been any great national emergency that somebody did not criticize the Government for doing whatever it was doing? Did they not criticize Abraham Lincoln in his conduct of the Civil War, and was there not a great effort made to defeat him for reelection?

Did not the people in the South criticize Robert E. Lee and Stonewall Jackson and the President of the Confederacy?

Of course, that is a right and a privilege that the public has. But is it not a common custom, when conditions become serious, in times of great crises, and when those in authority are doing their very best, for them to be criticized?

Is it not regrettable that those who know so well how to solve all these problems are not given the responsibility for doing it; that those who cannot solve them are given the responsibility to handle them? Is it not regrettable that these people who say they know, are not elected to Congress and that one of them is not elected President? Is it not regrettable that these people who know how to do these things, who know how to perform these miracles, are not in charge?

We are doing the very best we can. We are glad to receive criticism but we do feel that it is somewhat without justification if there is not brought with it something constructive, concrete, definite, in the way of a suggestion to pursue a better course.

Mr. DONNELLY. We do not want to be understood, Mr. Chairman, as being destructively critical. Our purpose in coming here is to be cooperative.

The CHAIRMAN. But that is not the effect of it. You impress me as a very sincere and intelligent man. That is the reason I was hoping that you could make us a suggestion, in lieu of what we are doing, that would be helpful; something that is more constructive than we have received.

If you will take the time to think it over and can prepare some constructive suggestions, in the form of a brief, we shall be glad to receive it and put it into the record.

Mr. DONNELLY. I shall be very glad to do that.

Mr. COOPER. There is one other question, Mr. Donnelly, about the graduated corporation tax. Now, just for illustration: In the schedule that we have, which is estimated to yield \$67,000,000, which is one of the schedules on which a study has been made, the range is from \$2,000 at 10 percent up to \$5,000,000 and over at 17½ percent.

If you break this schedule at about \$152,000 of net income, it would mean that only about 3,074 corporations out of 190,000 would be taxed at 13¾ percent, which is the present rate.

According to the figures that have been given to me, of 190,000 corporations, only 186,926 would have to pay the higher rate, higher than is now imposed. What is your view on that?

Mr. DONNELLY. It is estimated that less than 10 percent of the total number of manufacturing establishments in the United States employ over 70 percent of all the workers.

Mr. COOPER. I am not talking about that. I did not ask you a thing in the world about that. I am just asking you the specific question.

Mr. DONNELLY. I think that that answer is very closely related to the question you asked.

Mr. COOPER. I am sorry, I do not agree with you. I do not think that has a place in here. I am just asking you this question relating to the number of corporations that would be affected by the higher rate. The fairness of that seems to be the basis of your objection.

Mr. DONNELLY. From a purely abstract standpoint, Mr. Cooper, I would say that that would seem to indicate—the hypothetical case that you have cited there—that the burden that would result to the great majority of the manufacturing corporations under this proposed graduated plan would not be substantial. But when you take into consideration the fact that the bulk of the workers of the United States are employed by the relatively small number of corporations; and when you take into consideration the fact of the burden that would be placed upon that relatively small number of corporations who come into the higher income brackets, which would be a burden that would be passed on to the workers and to the miscellaneous shareholders of those corporations, you can see not only the impracticability but the absolute unfairness of that program.

So I think that you cannot answer that question that you ask without reference to the incidence of, and the implications involved in, that form of graduated taxation.

Mr. COOPER. You speak of the additional burden that you think would be placed upon the employees of corporations coming within the higher brackets.

Mr. DONNELLY. Yes, sir.

Mr. COOPER. How about the additional advantage coming to those corporations that would get all of this relief?

Mr. DONNELLY. In the first place, a very large portion of these smaller corporations are dependent upon the larger ones. As you no doubt are aware, a very large number of the relatively small units in industry get a considerable portion of their business from the larger units; and any plan that would tend to unduly burden the larger manufacturing units indirectly reacts injuriously against the smaller ones.

Mr. COOPER. You do not think there would be any advantage or benefit, then?

Mr. DONNELLY. No real advantage or benefit, and certainly no lasting one.

Mr. COOPER. If there is to be a burden and a disadvantage to those in the higher brackets by this action, how can you sustain that

kind of a contention by insisting at the same time that there would not be a corresponding degree of benefit or advantage to those in the lower brackets?

Mr. DONNELLY. Only in the manner that I have; and that is, that the welfare of the smaller and the larger units is interdependent and very intimately related. Anything that burdens one will necessarily burden the other.

Mr. COOPER. But anything that benefits one will not benefit the other?

Mr. DONNELLY. By the same token, as I indicated also a little earlier, even though there were a real advantage to the smaller units in this plan as originally suggested, I am inclined to think that it would be only temporary.

Mr. COOPER. Just aside from the element of its being temporary, because that can only be affected by legislation enacted by Congress—so I do not see any occasion for entering into that field of speculation—but on the basis of these figures that I have given you, if, at the point that I have indicated, the difference would come between those who would have an increase in the rate and those who would have a decrease in the rate, if those figures are correct, there would be only 3,074 corporations that would have an increase in their present tax rate which would leave 186,926 that would get a substantial reduction in the tax rate.

I am unable to see how you can sustain any argument that this vast majority being benefited, it would not be a desirable result to accomplish.

Mr. DONNELLY. If I might add just one additional reason in addition to the ones that I have already undertaken to give in defense of my negative argument on that question, I would like to say that a great proportion of the men interested in and employed by these smaller corporations, to which you made reference, are shareholders in the three thousand odd who would come in the higher brackets.

It is a common fallacy to think of the ownership of these corporations in terms of a few wealthy individuals or large shareholders. As a matter of fact, the bulk of the stock of the larger corporations who would fall in the higher brackets you referred to is owned by individuals who might be employed by or dependent upon these smaller units.

Mr. COOPER. And who might not be.

Mr. DONNELLY. Well, that is, of course, all speculative. We all know that the ownership of these corporations is scattered generally among the citizens throughout the country in all walks of life.

The CHAIRMAN. If there are no further questions, we thank you for your appearance and the information that you have given to the committee.

The next witness is Dr. Sidney Goldstein, chairman of the Commission on Social Justice of the Central Conference of American Rabbis.

Will you please come forward and give your name and address, and the name of the organization you represent, for the record?

STATEMENT OF DR. SIDNEY E. GOLDSTEIN, CHAIRMAN OF THE
COMMISSION ON SOCIAL JUSTICE OF THE CENTRAL CON-
FERENCE OF AMERICAN RABBIS, NEW YORK CITY

The CHAIRMAN. How much time would you like?

Dr. GOLDSTEIN. I think I can cover this very brief statement, Mr. Chairman, in about 10 minutes.

The CHAIRMAN. You are recognized for 10 minutes.

Dr. GOLDSTEIN. May I say, Mr. Chairman and members of the committee, that I do not appear as an expert on the subject of taxation, but merely as chairman of the Social Justice Commission of the Central Conference of American Rabbis.

I appear to present to you a statement that was passed just 2 weeks ago at their conference held in the city of Chicago, that we would like to have included as our opinion, for the record.

The CHAIRMAN. Does that statement cover the scope of these hearings as outlined in the President's message?

Dr. GOLDSTEIN. It does.

The CHAIRMAN. Proceed.

Dr. GOLDSTEIN. The Central Conference of American Rabbis heartily approves the principles embodied in the President's program of taxation. We approve this program because we believe the fundamental need within America at the present time is an increase in the purchasing power of the wage-earning, agricultural, and salaried groups. These groups, who constitute the largest part of our population, have never enjoyed an income sufficiently high to maintain a proper level of life; even at the peak of prosperity 80 percent of those engaged in gainful occupations had an income lower than necessary to maintain a minimum family budget.

The low purchasing power of the people is not due to lack of income in the country as a whole. In 1928 the total income in the United States was not less than \$90,000,000,000; even today the total income is between \$45,000,000,000 and \$50,000,000,000. This total income is still sufficient to maintain every family in America upon a decent level of life. The trouble is that the total national income is now unwisely and inequitably distributed.

The Federal Government has established the principle of a minimum wage; but the minimum wage that is high enough to make a normal life possible depends upon the amount individuals with large incomes shall be permitted to retain. A limitation on income must be made upward as well as downward. There is a point below which no wage should fall as a matter of decency and justice; and there is also a point above which no income should be allowed to rise also as a matter of social justice and human decency. The minimum wage itself can never be high enough to be just unless the maximum income is low enough to make justice possible.

The income statistics issued by the Federal Government prove that there has been during the depression an increase in income in the higher brackets, but reveal no corresponding increase in the purchasing power of the great mass of people. The vast reservoirs of past and current income stored up and under the control of individuals, families, and small groups must be broken down through Government action. In the last war we conscripted the bodies and brains of America to save democracy. In the present effort to end poverty

and economic distress the Government must exercise its power to tax incomes, current and accumulated, in order to save the mass of people from misery and despair.

The President is correct in stating that our present revenue laws do not prevent an unjust concentration of wealth and economic power. What the President is endeavoring to do is to democratize our economic organization and income. What the Chamber of Commerce is striving to do is to maintain the autocracy in our economic life that is largely responsible for our economic collapse. America cannot tolerate an economic autocracy together with a political democracy. We cannot survive politically free and economically enslaved. The President's program of taxation will distribute income justly and aid us to economic freedom.

We therefore urge the following: A rapid increase in surtaxes upon current income; a marked increase in taxes upon gifts and inheritance tax, and a heavy tax on corporations' surpluses and reserves, and the taxation of tax-exempt securities.

We have not, Mr. Chairman, ventured to suggest any rates because we believe that your own experts in taxation and your actuaries are better able to do that than we.

We merely state our approval of the principles in the hope that Congress will enact legislation that will distribute income more equitably than it is distributed at the present time in the United States.

Unless the income is distributed equitably, great numbers of our people must continue to suffer.

We call your attention to the fact that at the present time there are at least 25 millions of men and women and children who are utterly dependent upon public aid, local, State and Federal, and living in a state of destitution.

We also call your attention to this, that the 4 billions of dollars already provided by Congress for the so-called "work-relief program" will put to work, even at the Government's estimate, not more than 3½ million men and women. That will still leave out of work somewhere between 7 and 8 million men in America, if we accept the Government's own statistics as to the number of the unemployed.

MR. HILL. Will the gentleman yield on that point?

DR. GOLDSTEIN. Yes.

MR. HILL. The hope expressed by the administration as to the number of men to be put to work was 3½ million as a direct result, and an equal number as an indirect result, making a total of 7 million.

DR. GOLDSTEIN. That is the hope of the administration, I am sure, that they will put to work an equal number indirectly. There are, at the present time, however, in America, according to the best estimates, somewhere between 11 and 12 million men and women out of work whole time.

THE CHAIRMAN. Right in that connection, if economic conditions were normal, even if we were prosperous, if things were better than normal, how many of those 11 or 12 million would not work anyway?

There are always a certain number of men and women who are able to live without the thought of employment. There are a lot of people who, even if you gave them a job today, would not have a job tomorrow. How many of those are there in America, do you suppose?

Dr. GOLDSTEIN. We made studies on that subject before the collapse in 1929 and the best estimates at which we could arrive—when I say “we”, those of us who are interested in the problem of unemployment, such men as Paul Douglas, and others—we estimated the number at somewhere between a million and a half and two million.

The CHAIRMAN. You say about 11 million are now unemployed. If 7 million are put to work by this program directly or indirectly, and 2 million are taken care of in the group that you have just mentioned, that would leave about 2 million additional, and a little pick-up in business would take care of them.

Dr. GOLDSTEIN. I assume, Mr. Chairman, there must be nearly 12 million people out of work whole time at the present time in America, men and women.

Mr. DISNEY. Mr. Chairman, have not other witnesses testified that normal unemployment is about three million?

The CHAIRMAN. I never heard it put as low as two million before. I am sure that there are more than that number of people who have an aversion to work. Some of them are able to work and would not work. Some of them will always find some way of getting out of a job. It is my opinion that there is a considerable number of them.

Dr. GOLDSTEIN. Yes.

The CHAIRMAN. Of people in this country who will never be employed. If they were employed today at a lucrative wage, under favorable working conditions, they would not be employed one week from today. They would find some excuse to get out. That is not the class that we are trying to take care of. We are trying to take care of that class of men and women who are willing to work.

Dr. GOLDSTEIN. Those who are not willing to work are the kind that ought not to be cared for by the relief agencies of the country, whether they be local or State or Federal. I am speaking now of the men who are able and willing to work. Those are the people we call the unemployed.

The CHAIRMAN. That is the type that we are so anxious about.

Dr. GOLDSTEIN. Exactly. And our judgment is that the \$4,000,000,000 will not put to work the number who are out of work and who are able to work and willing to work; and therefore, that your tax program ought to be so constructed as to provide us with an even larger sum of money than \$4,000,000,000 that is included in the relief program.

In other words, we do not want the country to believe that \$4,000,000,000 will actually meet the needs of all the unemployed in America at the present time.

The CHAIRMAN. You are not one of those who believes in the theory or the doctrine that we hear here every day, that the Government should not be in the field of taking care of the unemployed and that it is a waste of money to do it.

Dr. GOLDSTEIN. I do not belong to that group, Mr. Chairman. I believe that the first duty of Government is to take care of the citizens in time of need. This is not only a time of need but a time of very great and urgent need in America; and it is the duty of the Government to take care of those who are in need at the present time. I know from my own personal experience that so many of those people are reaching the stage of desperation and despair.

The CHAIRMAN. Of course, those of us who have any responsibility in Federal legislation would like to see the ideal situation where every person who desires employment does not have any difficulty in obtaining it. If that were possible, the local authorities could take care of any unemployment problem.

Dr. GOLDSTEIN. Exactly.

The CHAIRMAN. But when the first condition does not obtain, and the second is not possible, then some of us do not see anything else but that the Federal Government must do what it can in an endeavor to provide for the reasonable sustenance of those who are unable, although willing, to work.

Dr. GOLDSTEIN. May I put it this way, Mr. Chairman, that the degree to which private industry fails, to that degree the Government must step in and assist the citizens.

The CHAIRMAN. Some division of government?

Dr. GOLDSTEIN. Some division of government.

The CHAIRMAN. Either local or State or Federal?

Dr. GOLDSTEIN. One or all three together; yes, sir.

The CHAIRMAN. If there are no further questions, we thank you for your appearance and the testimony that you have given to the committee.

Mr. DISNEY. Mr. Chairman, I should like to ask permission to insert in the record a statement on the general subject of income-tax exemption, 1934 and subsequent years, actually used in the liquidation of indebtedness existing on and prior to January 1, 1933.

The CHAIRMAN. Without objection, it may be inserted in the record.

(The memorandum referred to is as follows:)

INCOME TAX EXEMPTION PROPOSED BY OWENS TO REVIVE BUSINESS

[Reprinted from Tulsa World]

TO HELP REVIVAL

As a means of reviving and stimulating business so as to immediately increase available revenues collected through excise-tax levies such as gross-production tax, gasoline tax, sales tax, and all others that are immediately responsive to business changes, and income taxes that will be paid in the future, and for the further purpose of creating market values for real property and markets for long-term securities and investments, I suggest that the National Government, and respective State governments which levy income taxes, exempt from such income tax all profits for 1934 and subsequent years actually used in the liquidation of indebtedness existing on and prior to January 1, 1933. The tax returns for the calendar year 1933 were all filed during the calendar year 1934 and no opportunity will exist to falsify the status of any taxpayer or debtor with reference to indebtedness existing on and prior to January 1, 1933.

This proposal is in effect a premium, inducement, or subsidy offered by the Government to the debtor class to voluntarily liquidate their old indebtedness by relieving them of the penalties, in the form of income taxes at present prevailing, for paying such debts. The debtor who was, prior to the crash in 1929, or who subsequent thereto became substantially involved in debt, can never hope to liquidate because such income-tax penalties increase and in the case of large amounts multiply the amount necessary to pay such indebtedness if paid out of profits. Therefore, liquidation with such subsidy or relief can only be accomplished by conversion of capital assets, and if attempted on a sufficiently large scale to be beneficial would cause a repetition of destruction of property values and another period of involuntary and forced liquidation which will be ruinous. The most stabilizing influence upon values of all kinds of property is the conditions which permit the present owner to redeem his property and liquidate his indebtedness out of earnings. The most demoralizing influence upon values of

all kinds of property is the condition which necessitates hasty or precipitous disposition of property and capital assets for the liquidation of indebtedness which, of course, is immediately followed by forced sales, receiverships, bankruptcy, etc.

TO QUICKEN CAPITAL

Frozen assets, defaulted obligations, nonincome producing property, etc., afford no revenue through income taxes and in most instances do not bear or pay ad valorem taxes in full, except at the expense of or loss to creditors, as a result of which ad valorem taxes paid are more than offset by the reduced income taxes that would otherwise be derived from such creditors.

Voluntary liquidation of old indebtedness is the most stimulating influence upon business for the reason that it increases the flow of capital and directly increases the volume of current business, which is immediately productive of tax revenues and revives and stimulates investment fields and creates values for real property and slow investments. Voluntary liquidation rarely ever proceeds far except in the case of stock market crashes, which are usually induced by fear first on the part of the investor and immediately forced by fear on the part of the creditor class, at which point it then becomes involuntary or forced liquidation. Except in the case of stock-market crashes, voluntary liquidation, as a rule, is checked as soon as its volume reaches such proportions or extent as to create opportunities for profit to the investing or reinvesting class.

Predicated on the plan of liquidating indebtedness existing on and prior to January 1, 1933, and assuming (and such assumption is reasonable and logical), that no one has been able to voluntarily materially increase their liabilities since January 1, 1933, and that liquidation to an appreciable extent of indebtedness existing prior to that date will materially relieve the position and condition of the debtor class as to indebtedness created since January 1, 1933, let me give you a homely illustration or two which I do not intend to represent will operate in detail exactly as pictured here. My purpose is merely to illustrate the plan upon which the method would operate.

AN ILLUSTRATION

Suppose a corporation has an outstanding bond issue of \$20,000,000 maturing in 1938 or later; its sinking fund requirements have been met and the maximum charge-offs for depletion, depreciation, and reserves have been taken not only for sound business reasons but for income-tax purposes, such company has, of course, a surplus either in cash, book assets, or otherwise. If such company has made any appreciable gross profit in the year 1934 or should make appreciable gross profits in the future, that company could well afford, by taking advantage of the exemptions from income taxes as proposed, to forego charging off the full allowances for depletion, depreciation, etc., so as to keep its net profits or taxable income higher and draw upon such increased net income or profits in a sufficient amount, which, added to its sinking fund, would permit it to call its bond issue, and instead of weakening its capital structure it would be materially strengthened and improved. By paying such bond issue under such methods, the debtor company could in fact buy back its bonds at a discount equal to the amount of the income taxes saved, while the bondholder, the creditor, could receive full payment upon the obligation due him which would in turn be immediately available if not put into business channels. A corporation in such condition could well afford to avail itself of this method, even though it should immediately thereafter refinance itself by a new bond issue. In other words, it could refund or extend its bonded debt at a saving. The loss, if any, that would be sustained by the National and State Governments would be negligible compared with the revenues available from the increased volume of business that would develop through the renewed flow of capital and the opening of the doors of credit.

STILL ANOTHER

Another and more homely illustration is this:

Suppose I owe \$3,500,000 which, through a series of conditions easily imaginable, because such conditions have prevailed, is inadequately secured, or the security for which is worth a negligible proportion of the debt or perhaps worthless. Being in the oil business, I apply this illustration to the oil business. Assume that thus hopelessly involved, I procure a lease or block of leases and through ingenuity, industry, and effort have a well drilled thereon which demonstrates such lease or block of leases to have tremendous value and can sell the

same for \$5,000,000. If I should sell, prevailing income-tax penalties would deplete the proceeds so much that I could not pay my \$3,500,000 indebtedness. If \$3,500,000 of such \$5,000,000 is exempted from income taxes provided I pay such indebtedness, I can then afford to sell the property and will gladly do so, pay my creditors in full, and pay the income taxes on the remaining \$1,500,000, have a new start in life with renewed energy, vigor, and hope, and business will pick up with me, at least as long as the residue of the \$1,500,000, after the income taxes thereon are paid, lasts.

For the sake of argument and illustration, assume that my \$3,500,000 in debts have been charged off by my creditors (which they certainly would have been if they were not secured), because my creditors will avail themselves of all proper charge-offs for income-tax purposes. When I pay my debts in full my creditors, if they have charged off my obligations, will thereupon be required to report such payments as 100 percent profit and in all probability such \$3,500,000 of collected accounts will be subject to income-tax payments by my creditors upon as high if not higher brackets than I would have to pay on. This is a reasonable conclusion because creditors capable of extending \$3,500,000 of credit will undoubtedly have assets, other than my obligations, and profits accruing therefrom which will be subject to income taxes in addition to the income tax chargeable to the losses recovered from me.

TO HELP CREDITORS

On the other hand if my creditors are likewise involved, the payment of my obligation to them will in turn enable them to pay their creditors, and they will also be saved. The ultimate recipient of the funds will not escape taxation thereon. If he has not charged off the debt of my creditor, he will be in the same position as my solvent creditor and the return of capital assets will increase his net worth, while if he has charged off the obligation of my insolvent or distressed creditor, the full recovery will be subject to income tax.

This, of course, does not imply that all profits will escape income tax for the reason that it is impossible for a debtor to sustain himself in business and pay all of his income or profits in the liquidation of his old debts. Such is the reason why indebtedness must be prolonged, extended, and continued, which in turn aggravates and magnifies the frozen condition of collateral and property in order to avoid destroying the debtor class. It is conceded that if harsh or drastic methods are taken by creditors against a debtor he is wiped out by foreclosure, bankruptcy, or otherwise, and as a general rule with an ultimate loss to the creditors. In a few instances, or in the case of the particular illustration above, if a sale of a \$5,000,000 property is forced to satisfy \$3,500,000 of indebtedness, in such instance the creditors may be paid in full, but the debtor is destroyed, his initiative, energy, and opportunity stifled, and he is no longer a moving, vital force in the business affairs of his community. The fewer forced sales, foreclosures, and receiverships there are enforced the better it is for the people generally, the State, and Nation as well as the individuals involved. The fewer bankrupts or insolvents there are in a community, State, or Nation, of course the healthier such community or State is. The purpose of the exemption from income taxes is not only to extend an opportunity for the debtor to relieve himself but for the Government to be both directly and indirectly aided by its act of foregoing one source of revenue with a view of creating several others. The Government's power to collect taxes from a distressed debtor does not have the value to the Government that collectible revenue will have under conditions which will permit a debtor to pay his debts.

Radicals and extremists will, of course, say that this will in effect constitute a payment by the Government of the debtor's debts, but this is not true for the simple reason that the debtor in most instances cannot pay his debts, and under present conditions all desire is stifled or removed because of such income-tax penalties.

FARMERS TO BENEFIT

A still more homely illustration is this: Suppose a farmer owns a farm encumbered by a mortgage subject to foreclosure either through maturity or default of interest payment and has been unable to procure Federal relief in the form of a Federal farm loan. This is a reasonable assumption, because the proportion of distressed farmers or landowners who have been able to procure such loans is very negligible or small. Such person of necessity owes delinquent ad valorem taxes. Under the present conditions there is no market for such property, he cannot hope to sell for enough to pay his debts.

The brightest ray of hope he can entertain is that the mortgagee will take the land without a deficiency judgment. With this brightest ray of hope realized the farmer then becomes a tenant farmer, of which there are too many. Under more favorable conditions the farmer could, without doubt, realize enough from the sale of his land to pay his debts and have a small surplus with which to make a new start by the acquisition of a smaller or less expensive farm, but at least he could start over and remain a stable citizen in some community. If he is wiped out and does not become a tenant farmer, he immediately becomes an unemployed or an unemployable. With the present income-tax penalties stifling voluntary liquidation, a farmer in such circumstances cannot hope to improve his position and is merely a tenant by grace. If the tax penalties were removed, the farmer could sell the land in open active market, pay his debts and delinquent ad valorem taxes, and have a sufficient amount of money to acquire another or smaller farm, but if required to pay the income taxes even though he sold the land for an amount in excess of his indebtedness, he would have nothing left because the farm undoubtedly represents profits accumulated during the years and upon which he must pay when the property is converted to cash. This same illustration is applicable to the city dweller who owns a modest home and more appropriately so to the one who owns a mansion if he is in distress.

BEFORE CONGRESS

My thought is that this mode should be adopted by the National Congress first and that it will immediately be followed by every State which imposes an income tax. I had this matter before the National Congress last year, but too late for it to receive consideration at the time the then pending revenue bill was under consideration. However, I have it before the National Congress now, but there is a likelihood that it will not receive consideration for the reason which has been assigned to me, namely, that there will be no general revenue bill considered by this session of Congress and that all such matters would have to be taken care of by joint resolution of the House and Senate, which limits the possibilities of its receiving favorable consideration or adoption. I have asked that a special bill embodying the substance of this idea be introduced in both the House and Senate. My further thought is that if the Oklahoma Legislature will immediately adopt such plan, the national administration will immediately thereafter give it consideration and in all probability favorably act upon the same during the present session of Congress. If this should happen, every State imposing an income tax will do likewise. However, if the National Congress should fail to act the other States will undoubtedly act within a reasonable length of time and Congress will do likewise at the earliest possible date.

The CHAIRMAN. The next witness is Mr. Benjamin, of New York City.

STATEMENT OF HERBERT BENJAMIN, NEW YORK CITY

The CHAIRMAN. Mr. Benjamin, you understand the scope of the hearings.

Mr. BENJAMIN. I do, Mr. Chairman.

The CHAIRMAN. You are recognized for 10 minutes.

Mr. BENJAMIN. I should like to open my brief, Mr. Chairman and members of the committee, by quoting from the statement of the President in submitting the present legislation before you. He declared that—

Social unrest and a deepening sense of unfairness are dangerous to our national life which we must minimize by rigorous methods. People know that vast personal incomes come not only through the effort or ability or luck of those who receive them but also because of the opportunities for advantages which government itself contributes. Therefore, the duty rests upon the Government to restrict such incomes by very high taxes.

It is in behalf of those who constitute the forces of social unrest that I wish to appear before this committee at this moment in order to take up and present to you briefly our views with regard to the present legislation.

We approach this question from the following point of view: First of all, will this legislation meet the social needs that exist at the present time?

Secondly, will it remove from the masses the burden of taxation which is now imposed upon them?

And thirdly, will it serve to release for general use the wealth which is generally frozen at the present time?

In examining the present tax program, we are forced to conclude that by virtue of the fact that the amount to be raised through this legislation is so entirely inadequate when compared to the requirements of the present situation that we cannot accept this as a satisfactory act of government in that it will not provide for the needs which the masses generally feel at the present time.

For example, it will not provide the funds that are essential to adequate social insurance.

It will not provide the funds that are essential in order to pay the deferred compensation; that is, the bonus to the veterans.

It will not provide the funds necessary in order that adequate relief may be given to the farmers, and so forth. On the contrary, it appears from the intent of the bill and from statements that have been made here, that the purpose of this legislation is to provide additional revenue so as to balance the Budget, reduce the national debt, pay interest and principal to the Wall Street shylocks, and in its sum totality this legislation amounts to only a polite little nibble at the great fortunes which are now held in the hands of a few.

As against this, we have proposed on a number of occasions forms of taxation which we consider would more adequately provide for the present requirements.

We have pointed out that by applying the British rate of taxation to high incomes in the United States we would have, in 1928, been able to secure total revenue of five and three-quarter billions as against a little over one billion dollars which we did secure through the tax on incomes in 1928. In other words, about five times as much revenue would have been secured as was secured.

Also, in 1932, the revenue would have been \$1,128,000,000 as against \$324,000,000 now raised through that kind of a tax.

When you compare the rate of taxation in the United States and in Great Britain, we find that on incomes of between fifty and one hundred thousand dollars per year in the United States the tax is 17 percent, whereas the tax in Great Britain is 39 percent.

We believe that no real, serious approach toward the redistribution of wealth can be possible until we are ready at least to accept the rates of taxation that prevail in Great Britain.

In connection with the corporation tax, we are not in position to estimate exactly what the rate of taxation should be, but when you apply a flat 25-percent rate of taxation on incomes over \$5,000 we find that in 1928 we might have realized revenue amounting to \$2,600,000,000 as against \$1,200,000,000 which was raised, and in 1933 the revenue would have been raised to the amount of \$750,000,000 through such taxes, as against \$353,000,000 actually raised.

On the inheritances and estate taxes in the United States the rate of taxation is much lower than it is elsewhere, and it is almost ridiculous.

In 1928 the total revenue raised through taxes on inheritance was \$42,000,000 on a total of three and a half billion, on estate transfers through inheritance. A little over 1 percent was the sum total on the tax on inheritances. That is the tax on inheritances in 1928 when you estimate it on the basis of the gross in 1928. The percentage estimated on the basis of the net, which allows a reduction of 50 percent from the start—on the basis of a 25 percent flat rate on inheritances we would have raised in 1928 \$818,000,000 as against \$42,000,000 actually raised through this source.

As a matter of fact, we are of the opinion that it should be our purpose to direct ourselves toward the complete elimination of all inheritances by 100-percent tax on inheritances. That would be entirely just, both from a moral as well as from a social point of view.

As to the question of tax-exempt securities, we have no provision yet made in the present legislation. We are informed that there are a total of 28 billion dollars of such tax-exempt securities outstanding at this time throughout the United States, and a tax on that basis would likewise provide a great deal of additional revenue.

Finally, on the corporate surplus and undivided profits, in 1928 there was a total of 47 billion dollars tied up in the United States as corporate surplus and undivided profits. Even in 1932, the amount was 36 billion dollars. In other words, only about 5 percent will affect the interest charge and the funded debt in the United States, as against a lowering by 6 percent of the total wage income of the United States. I get these figures from Senate Document 124, Seventy-third Congress, second session, prepared under Senate Resolution 220, for the Committee on Finance.

According to Senator Wagner, speaking before the American Federation of Labor convention recently, he pointed out that in 1929 the increased value of our productivity was 10 billion dollars over 1922, and this was divided as follows: 6 percent of the total increase went to wages, 8 percent to salaries, 38 percent to raw material, and 48 percent to profits and other costs.

Now, Mr. Chairman and members of the committee, in view of these facts, I believe the legislation proposed here is entirely inadequate in order to meet the requirements, that is the social requirements of the great masses of the population in this country, and in order to relieve them of the burden of such nuisance taxes as are being imposed now and in order that they may be provided with genuine social insurance, as provided in the bill, H. R. 2827, and real farmers' relief, as provided in H. R. 3471, and the payment of the bonus, as provided for in H. R. 8365, and similar social legislation measures.

On that basis, I submit, that we are opposed to the present legislation, and urge the adoption of legislation which will really provide for greater revenue, this revenue to be used not in order to pay the banks on their principal and interest, but to provide social legislation which is so essential to the people of this country.

May I ask, Mr. Chairman, that I may be permitted to submit for the record of this committee material which has been prepared for us by a committee of economists, which material I was unable to bring with me because I was only informed this morning about this hearing and was unable to get the material in time to bring it with me.

The CHAIRMAN. How much would there be of it?

Mr. BENJAMIN. It would make perhaps six or seven pages of tabulation.

The CHAIRMAN. On the same subject?

Mr. BENJAMIN. On the same subject. We had some tax experts on this, and also the matter dealing with the question of preventing the evasion of taxation, which is so general at the present time.

The CHAIRMAN. Without objection it is so ordered.

We thank you for your appearance and the testimony you have given us.

The CHAIRMAN. Congressman Pettengill, of Indiana, desires to make a statement to the committee in connection with the matter we have under consideration. We will be glad to hear you at this time, Mr. Pettengill.

STATEMENT OF HON. SAMUEL B. PETTENGILL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA

Mr. PETTENGILL. Mr. Chairman, I will confine myself to the items in the President's message.

Mr. Chairman, I have come on telephone notice, and I will ask permission to revise my remarks later.

The CHAIRMAN. You have that permission.

Mr. PETTENGILL. I do not, gentlemen, of course, pose as an expert on tax matters at all, and I fully appreciate the difficult problems you are confronted with.

But I did feel that, in justice to the long consideration that was given by the House Committee on Interstate and Foreign Commerce to the matter, and in view of the fact that subsequently in the President's message he recommends for your consideration a study of the same proposition, that I should speak to you with reference to the matter of reinstating in the corporation income tax law the principle of a tax on intercorporate dividends.

I do not, of course, wish to go into the merits of the death sentence in the public-utility bill. But it was my view, and I expressed it to the President some 6 weeks ago, that the way to accomplish the result that he had in mind, for the gradual simplification and elimination of superholding companies was to go back to the principle used during the Wilson administration, that is, to place a small tax upon dividends received by one corporation from another.

During the World War there was such a tax, which was 2 percent in amount.

Now, in a utility holding company with a superstructure 10 stories high, if, as the earnings go from the operating company to holding companies no. 1, no. 2, no. 3, and no. 4, and so on—if, every time it passes from one to the other, it was subjected to a small tax of 1 or 2 percent, it would gradually cause a decision by the board of directors of the company to gradually eliminate some of the companies and thus force a shrinking down of the utility superstructure, and I think that is a sound principle.

At the present time, gentlemen, a holding company which drives its entire income from dividends from another company does not contribute even a penny to the support of the United States Government, despite the fact that it enjoys the benefits of its corporate franchise,

and even then this may be due to the fact that it operates in that capacity. But it wholly escapes taxation.

The tax ought not to be large in amount, and it ought not to be, in my judgment, put into effect immediately, because I do not wish to see a drastic liquidation in security values at the present time.

In my supplemental report on the public utility act I said:

In some respects this bill does not go as far as I would wish. I have favored the use of a small tax, the effect of which would be a constant pressure toward the gradual simplification of the holding company superstructure. This has been voted against by the committee. The President, however, in his recent tax message expressed his approval of the principle for which I have contended and I trust the Ways and Means Committee will now study the matter carefully with a view to its general adoption.

During the Wilson administration there was such a tax on intercorporate dividends. After the World War it was repealed. It is my judgment that such repeal made it easy to and therefore encouraged the development of one holding company on top of another.

I believe that such a tax, together with the elimination of stamp and other taxes which now operate as a penalty on reorganization and simplification, would in a few years accomplish the objectives the President has in mind and yet do so without drastic liquidation, without unnecessary harm to innocent investors, and without creating a situation of doubt and uncertainty under which business and reemployment of our idle men cannot go forward.

We, of course, realized that we do not have jurisdiction in the matter of a tax, but it was our way of getting it to the attention of the committee, with the thought of later bringing it to the attention of the Committee on Ways and Means.

This matter was carefully studied in connection with the investigation made under a resolution of the House by the Committee on Interstate and Foreign Commerce, in which Dr. Splawn was counsel for the committee.

I call attention to House Report 827, part 2, under the head of relation of holding companies to operating companies, as to the matter of effecting control. On page 7 of that report Dr. Splawn says this:

The most effective means of preventing pyramiding is to eliminate the so-called intermediary companies interposed between the operating company and the company at the top. Heretofore these intermediary companies have, in effect, been subsidized by the Federal Government through exemption from taxes of dividends on their stock.

Instead of giving Government encouragement to intermediate holding companies through exemption from taxation, those companies should be required to pay taxes as though they were not tied in through stock ownership with a number of other corporations. This would be a fair and just procedure.

Mr. DISNEY. In a very graphic chart which was used in argument on the floor of the House in connection with the holding company bill, there were almost a hundred holding companies represented. Do you mean every one of them failed to pay taxes to the United States Government?

Mr. PETTENGILL. On dividends they are entirely exempt. During the World War they were subjected to a tax of 2 percent on dividends from companies whose stocks they owned, but that was repealed. But it is my judgment, and I am corroborated by Dr. Splawn, who has given this matter study for 3 or 4 years, that in repealing the tax we encouraged the development of holding companies.

Mr. DISNEY. The company at the top, the parent company is the one that is taxed?

Mr. PETTENGILL. No company today pays any tax on dividends received on stock of corporations that it owns, except at the present

time in the case of foreign corporations, owned by domestic corporations, the domestic corporation does pay the tax upon the dividends received from the foreign subsidiary. But that is not true with reference to domestic subsidiaries.

This proposition I am suggesting to you now is nothing different than we had in effect in the World War with respect to corporations, and is not different from what we are now doing with the foreign corporations.

Mr. HILL. The situation is that the operating company reports a net income and pays a corporation tax on that.

Mr. PETTENGILL. That is right.

Mr. HILL. That is distributed in the way of dividends to the corporation above.

Mr. PETTENGILL. Which is wholly exempt.

Mr. HILL. And the dividend so distributed is not taxed?

Mr. PETTENGILL. That is correct.

Mr. HILL. It is not taxed all the way up the line. The domestic corporation receiving dividends from another domestic corporation pays no tax on such dividends?

Mr. PETTENGILL. That is right. It is wholly exempt.

To bring the matter to the attention of the committee, I took the matter up with the Secretary of the Treasury and with Mr. Helvering, Commissioner of Internal Revenue, and I have letters from them, which I will be glad to incorporate in the record.

Mr. HILL. Did you get an estimate as to the amount of revenue that that would produce?

Mr. PETTENGILL. These letters did not make any estimate, but I see that Secretary Morgenthau estimated, in his statement to the committee, that there would be a yield of \$39,000,000.

Mr. HILL. On what rate?

Mr. PETTENGILL. I do not know what rate he had in mind.

At the present time, Mr. Hill, as you know, the rate on corporations is 13½ percent, and, of course, we could not subject any of the corporate dividends to such a high tax as that. But if it were about 2 percent the gradual effect would be that corporate managements would find ways and means to simplify the superstructure and prevent pyramiding, and control investments, and I think the committee will realize that would be very effective.

Mr. HILL. The tendency would be to reduce the holding companies to a smaller number, to avoid the tax.

Mr. PETTENGILL. That is correct.

In the draft of the committee bill, with the help of Mr. Parker of the Legislative Service, we prepared an amendment, and in place of exempting intercorporate dividends 100 percent, as they are at the present time, the effect of the amendment was an exemption of 85 percent, with a tax on 15 percent, and 15 percent times 13½ is 2 percent.

I do not care to take up any more of your time, but I felt that I wanted to get this point of view to you for your consideration now or at some subsequent session.

The CHAIRMAN. We are very much obliged to you for your statement, Mr. Pettengill.

Representative McFarlane has asked for permission to insert a statement in the record, and without objection, it will be so ordered, and the statement is as follows:

STATEMENT OF HON. W. D. McFARLANE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. McFARLANE. Mr. Chairman and members of the committee: I desire to submit for your consideration my reasons why certain bills which I have introduced in the House should be favorably reported by your committee. The bills to which I refer are H. R. 8401 amending section 12 (b) of the Revenue Act of 1934 relating to rates of surtax; H. R. 8402 amending section 405 (b) of the Revenue Act of 1934 relating to rates of tax on estates; and H. R. 8403 amending section 520 of the Revenue Act of 1934 relating to rates of tax on gifts. I also wish to call to your attention my Resolution No. 98 proposing an amendment to the Constitution of the United States relative to taxing certain incomes which is in harmony with the President's tax message of recent date.

Let me say in the beginning that I realize that the above-mentioned bills do not precisely agree with the general ideas advanced by the President in his message to Congress on June 19. The President in his suggestions asked for revision of taxation on inheritances, gifts, and for a graduated income tax on corporations according to their size, whereas the above measures call for a revision upward on estates and gift taxes commensurate with the rates of other countries and for a revision of the personal income tax rates placing a ceiling on personal incomes of not to exceed \$1,000 per week or about \$52,000 net per year.

I respectfully ask your committee to consider these measures on their merits bearing in mind that the President has made only general suggestions regarding tax rates on the subjects covered.

INCOME TAX

The income-tax schedule which I propose in H. R. 8401 materially increases the amount of the tax in the case of all tax payers. A comparison of the tax raised under this measure with that of Great Britain, France and Germany is as follows:

Comparison of income tax—Married person, no dependents, all income from salary

Net income	H. R. 8401	Great Britain	France	Germany
\$1,000.....	\$0.00	\$8.88	\$33.78	\$79.05
\$2,000.....	0.00	111.44	170.10	316.85
\$3,000.....	8.00	311.44	365.85	543.54
\$5,000.....	85.00	711.44	857.30	1,079.54
\$7,500.....	230.00	1,221.94	1,651.30	1,951.95
\$10,000.....	440.00	1,862.34	2,524.94	2,989.89
\$15,000.....	1,049.00	3,443.85	4,688.28	5,170.49
\$25,000.....	3,049.00	7,368.90	9,509.83	9,946.04
\$50,000.....	12,516.50	19,654.60	23,716.05	22,565.71
\$100,000.....	50,204.00	48,101.85	53,651.12	47,445.63
\$500,000.....	463,866.50	307,909.85	269,651.12	247,465.73
\$1,000,000.....	961,366.50	639,159.85	539,651.12	497,446.16

The rate schedule is so drawn in H. R. 8401 that the amount of income remaining in the hands of any tax payer cannot exceed approximately \$50,000. Surtax rates begin at 1 percent upon the first \$1,000 in excess of the exemption plus \$2,000. The rate of tax upon the portion of net income in excess of \$50,000 is 99½ percent.

BENEFITS DERIVED FROM LIMITING INCOMES TO \$50,000

(a) Presents unhealthy increase in prices and removes incentive to reduce wages

Such an amendment to our tax laws would peacefully and orderly bring about a redistribution of our national wealth. These amendments would soon be reflected to both the consumer and producer. Businessmen who are prone to reduce wages or oppose their increase, would not find it advantageous to do so if the resultant savings when beyond their reasonable needs was taken from them in taxes. Likewise, the incentive to reap excess profits by increasing the selling price would cease to exist. Instead the tendency would be to maintain good wages, shorten hours, and decrease prices to the lowest point compatible with this maximum possible personal income. The increased wages, shorter hours, and decreased selling prices would automatically benefit the whole community by increasing employment and buying power.

(b) Would stimulate legitimate business

Such a tax would not only eliminate profiteering but would stimulate legitimate business and profits. By taxing only personal incomes and not business profits, a handicap would be removed from business. Untaxed, undivided profits would be available for development and expansion made necessary by the increased buying power and higher wages and more employment. The accumulation of deferred dividends or undivided profits beyond the reasonable needs of the business would be prevented by safeguards which you placed in the Revenue Act of 1934 and which we hope will be more effectively administered by this administration than similar provisions found in prior revenue acts were enforced under the Mellon regime.

(c) Would remove the incentive for unreasonable increases in officers' salaries

The Federal Trade Commission has been engaged in compiling data on the salaries of some of the larger corporations. Under date of February 27, 1934, the "Evening Star" of this city quoted an article from the Associated Press to the effect that this study disclosed that out of 900 big companies around 300 executives were receiving more than \$100,000 in 1929 in bonuses and salaries. In the boom period about two score received pay checks and bonus of \$200,000. Some 25 got between \$200,000 and \$300,000; seven more got between \$300,000 and \$400,000; three between \$700,000 and \$800,000; two between \$800,000 and \$900,000; one something over a million and another more than a million and half.

A conspicuous example was that of president of the American Tobacco Co. who between 1929 and 1932 received in bonuses and salary \$3,000,000. Another case was that of the president of the Bethlehem Steel Co. whose annual salary from 1928 to 1930 was \$12,000 annually but whose bonuses averaged \$1,100,000 per annum. A more glowing example was that of an executive of Fox Film Co. who received a salary and bonus of \$460,000. Shortly, thereafter the company under his management was in financial difficulties.

While I do not have sufficient data to establish this statement, it is generally conceded by those in a position to have a knowledge of

industry that salaries were increased from 1916 to 1929 by several hundred percent. In most instances these increases were not justified on the basis of additional duties. The additional pay in no sense represents earned incomes, but are paid by reason of the fact these individuals are able to dominate and control oftentimes with very little actual ownership of the business. The excessive salaries which they receive represent accumulated profits diverted from the stockholders into their pockets. The salary of the President of this country is only \$75,000. I believe no officer in commercial enterprises should receive more.

(d) Would take from these individuals the means by which they accumulate unreasonable wealth

The executives of large corporations for the most part are in a position to have inside information about the possibilities of profits from trading not only in their own stock but that of other companies dominated by friends and associates in like positions. Much of the profits from capital gains reported by wealthy men undoubtedly was the result of confidential information reaching them by reason of their position in the financial world before such information trickled down to the public. The exorbitant salaries and bonuses is the starting point frequently by which enormous amounts of wealth are accumulated from trading in stocks of this kind. The officers of General Motors, Chrysler, and Studebaker are said to have amassed large sums in this manner.

(e) Will remove numerous economic evils

Many economic evils and practices that are common under the present system would not be practical or profitable with such a progressive personal income tax. Holding companies, trusts, monopolies, and other devices for making and covering up excess profits would be of no avail. All such profits would ultimately be passed on as personal income and so would be available for taxation.

The temptation to water stock would be much lessened. Stocks are watered so that a few at the top may reap a bounteous harvest without giving anything in return. What would be the advantage of such manipulation if most, or all, of the profits reverted to the people through taxation?

The proposed tax would make large holdings of unproductive natural resources unprofitable or impossible and so help to restore such resources to the people. It would tend also to break up all large fortunes and holdings however owned or controlled. We would have no millionaires or wealthy playboys, also fewer paupers.

The perennial warfare between labor and capital would be largely avoided by such tax. Labor troubles are usually due to the desire of the employed for a more equitable share of the profits of industry. Given such a share, the conflict should cease.

Undue political influence and power that so often goes along with great fortunes and incomes would naturally be much less when such fortunes and incomes no longer exist.

Such a tax would take the excess profits out of the munitions and ship-building industries. It would thus help to eliminate one of the potent factors that tends to promote war.

(f) *Would not deprive industry of competent leadership*

Would such a tax and such a limitation of personal income deprive us of the services of our great industrial leaders? Would competent men refuse to work for such a pittance? We need have no misgivings about not being able to secure the services of competent men in any line or for any job for an income of \$50,000 per year. The net salary of the President is about \$50,000. Our Congressmen, Cabinet members, Supreme Court Justices, and business executives all receive less than \$25,000 per year. Competent men are found in every line of work who do not receive that much. In fact, all of our so-called "industrial leaders" have worked for less, and would gladly do so again, if necessary.

Let us suppose such a one should refuse to work for a paltry \$50,000 per year. What would he do? Retire to his million-dollar estate and live off his income? Well, as that income could not be over \$50,000 per year, he would not be able to pay taxes and upkeep on that million-dollar estate very long. As a result, the estate would have to be sold. This, of course, would be very desirable. The land would then be available for small home owners. A number of small home owners is a far greater asset to any community than is one large estate.

(g) *Would not cause an exodus of wealth*

Nor need we fear that our millionaires would take their wealth and the country. If they did leave they would not be missed. They could take with them little of real value. Our industries and resources would have to be left behind.

(h) *Evasion would decrease*

Would the possessors of swollen incomes try to evade such a tax? Probably so. Many of them try to now, and they often get by with it. Under the proposed plan such evasion would be more difficult. The greater the income the more numerous the sources from which it is derived and the more complicated and difficult it is to uncover. A limited income would naturally be derived from a smaller number of sources and so would be much easier to check. Requiring all corporations and employers to report the wages, salaries, bonuses, and dividends paid to all employees, stockholders, and officials would reduce evasion to a minimum. Anyone found spending money clearly in excess of his reported income would, of course, be a subject for special investigation.

Some will say it sounds all right but the people would never stand for such a tax. Well, that depends on what is meant by the people. Under the proposed plan, as under the present one, only a small percent of the voters would pay any income tax at all. The rate on the lower incomes, \$4,000 or less above exemptions, would be less than now. We might conservatively conclude that less than 1 percent of the people would then pay more income tax than at the present. The other 99 percent and all the non-income-tax payers would profit either directly or indirectly. If properly presented to the people, their own self-interest should cause them to approve such a tax.

SUMMARY

As stated before, the amount of the tax suggested, 1 percent on the first \$1,000 above exemptions and increasing 1 percent with each additional \$1,000, is purely arbitrary and may be adjusted to meet the needs of the Treasury Department for income. The practical working of such a plan is the point stressed. To be effective the tax must progressively increase so that excess profits will result in a diminished personal income. A lesser tax, such as our present income tax, is *shifted to the consumer* (italics mine) and so will not produce the desired result.

I realize that the income-tax law is full of exemptions and deductions favorable to wealthy taxpayers. Many of these deductions permit the taxpayer to retain, free of tax, large amounts of actual profits. The limitation, therefore, of \$50,000 is far less than the taxpayer will be permitted to retain under the existing law. For example, the capital-gain provision exempts from tax as high as 70 percent of the profits realized from the sale of stocks and bonds and other property. Statistical data of the Bureau of Internal Revenue indicates that wealthy taxpayers have a very large percentage of their net income from this source. It is commonly known that these gentlemen buy stocks, bonds, and real estate when the markets are depressed, and the public has little cash for this purpose.

These investments are held until prosperous times, when the markets are inflated, and their investments are then liquidated at excessive prices, a large portion of property sold by this class falls into the hands of small investors, who oftentimes lose much of their hard-earned money in the recessions of the market, when the shrewd investor can buy them up again for another cycle of investment. I see no reason for retaining such loopholes in the law, but if they are to be retained the rate of tax should be exceedingly heavy on that portion of the income subject to tax, for the profits they receive from these investments are not truly earned but represent the wealth of many small investors who are stripped of their savings, which are transferred to the wealthy individual who can take advantage of the economic condition of the times.

ESTATE TAX

In the case of estates, H. R. 8402 proposes a schedule beginning with 2 percent on the first \$10,000 in excess of the exemption of \$50,000 provided by the revenue act and is graduated upward to a rate of 99½ percent on net incomes in excess of \$20,000,000. The rate schedule is so drawn that regardless of the income there remains not over \$5,000,000 to be distributed in the case of any estate.

¶ Comparison of estate tax under H. R. 8402 and Great Britain is as follows:

Net estate before exemption	H. R. 8402	Great Britain	Net estate before exemption	H. R. 8402	Great Britain
\$2,500.....	None	\$25	\$400,000.....	\$62,600	\$72,000
\$5,000.....	None	100	\$500,000.....	82,600	95,000
\$25,000.....	None	750	\$600,000.....	102,600	120,000
\$50,000.....	None	2,000	\$800,000.....	150,600	192,000
\$100,000.....	\$9,600	8,000	\$1,000,000.....	206,600	240,000
\$150,000.....	17,600	15,000	\$2,000,000.....	546,600	600,000
\$200,000.....	26,600	24,000	\$5,000,000.....	2,026,600	1,900,000
\$300,000.....	44,600	48,000	\$10,000,000.....	5,726,600	4,500,000

WHY THESE AMENDMENTS SHOULD BE ADOPTED

I recommend for consideration of this committee the rate schedules which I have proposed in the foregoing bills. I believe that these rates are necessary to carry out the purpose stated in the President's recent message dealing with the subject of taxation.

In regard to our policy of taxation the President says:

Our revenue laws have operated in many ways to the unfair advantage of the few, and they have done little to prevent an unjust concentration of wealth and economic power.

In further recognition that taxes should be levied in proportion to ability to pay, the President says:

Taxation according to income is the most effective instrument yet devised to obtain just contribution from those best able to bear it and to avoid placing onerous burdens upon the mass of our people.

And further recognizing the justness of the movement toward progressive taxation of wealth and income, the President says:

Wealth in the modern world does not come merely from individual effort; it results from a combination of individual effort and of the manifold uses to which the community puts that effort. The individual does not create the product of his industry with his own hands; he utilizes the many processes and forces of mass production to meet the demands of a national and international market.

Therefore, in spite of the great importance in our national life of the efforts and ingenuity of unusual individuals, the people in the mass have inevitably helped to make large fortunes possible. Without mass cooperation great accumulations of wealth would be impossible save by unhealthy speculation. As Andrew Carnegie put it, "Where wealth accrues honorably, the people are always silent partners." Whether it be wealth achieved through the cooperation of the entire community or riches gained by speculation, in either case the ownership of such wealth or riches represents a great public interest and a great ability to pay.

In line with the thought expressed in these quotations, I have fixed the limit which anyone should leave as \$5,000,000. I believe that this country would be better off with a great many persons of small wealth rather than a less number of very great wealth. France and England are examples today of countries in which there are very few men of extremely great wealth. As a matter of fact, I do not understand that any individual in either of these countries possess anything like the wealth of the Ford family or the Mellon family. The recovery which each of these countries made after the war shows on how stable a basis their social structure rests. If we are to provide opportunities for persons of small means, it is incumbent upon the Government to effectively check the growth of large groups of wealth. This can be effectively done only if rates of income tax, inheritance and gift taxes are amended which will limit the amount of wealth remaining in the hands of the family at the date of death. I believe that the limit fixed in the bills which I have introduced will do this in an effective way.

GIFT TAXES

I have introduced H. R. S403 as a companion to H. R. S402. This bill partially plugs an obvious loophole in the present gift- and estate-tax laws. Under the present law, gifts are taxable at rates 75 percent of rates of similar amounts left by inheritance. The savings in tax which can be effected by means of giving away property prior to death

is so large in the case of wealthy taxpayers that a substantial portion of their inheritances will be given away to their children prior to death in order to defeat the inheritance-tax laws. The bill which I have introduced makes the rates on gifts the same as inheritance rates. This will partially discourage the giving away of property merely to defeat the tax. It will not, however, prevent the giving away of property prior to death for that purpose. The tremendous saving which can be effected under the present law is indicated by the following figures. In the case of an estate of \$10,000,000 the total estate tax is \$3,094,500. If, however, the decedent gives away one-half of the property prior to his death the gift tax on one-half of the property is \$848,650; the estate tax on the remaining one-half is \$1,149,500, making a total tax of \$1,998,150 and the saving to the estate is \$1,096,350.

The following data taken from reports of the Bureau of Internal Revenue showing receipts of gift taxes for 1933, 1934, and 1935 by months indicates taxpayers are availing themselves of this loophole to reduce death taxes:

	1933	1934		1935	1934
July.....	2,832.87	15,098.84	January.....	51,832.79	1,764,987.87
August.....	5,322.34	25,134.33	February.....	382,132.77	997,601.68
September.....	9,091.20	67,142.91	March.....	64,339,757.17	7,369,435.04
October.....	11,502.91	13,086.17	April.....	3,024,711.09	694,268.21
November.....	30,568.78	166,139.01	May.....	430,271.87	252,558.48
December.....	186,103.58	243,031.28			

I urge that you substitute higher estate-tax rates such as I have proposed in H. R. 8402 for the additional estate-tax rates imposed by the Revenue Act of 1934. Such a tax in view of decisions of the Supreme Court will reach a large portion of the transfers which are certain to be made in anticipation of an inheritance tax (*Milliken v. U. S.*, 283 U. S. 15).

It is hoped that we are now emerging from the most serious depression in the world's history. Experience teaches us that the wealthy during such depressions acquire large volumes of property at bargain counter prices. The unhealthy condition by reason of accumulation of wealth in hands of too few persons will be greatly aggravated by reason of the profits realized from the purchase of property during the depression. These profits represent the earnings of the great masses who by reason of their unfortunate condition are unable to hold on to their property until normal times. I believe death taxes should be imposed sufficiently high to return a large portion of such wealth to the Government in order that it may be used to liquidate the obligations of the Government now being created for relieving the distressed people of this country.

PROPOSED AMENDMENTS TO STOP LOOPHOLES

The present gift-tax laws enacted to stop a decided loophole in the Federal Estate Tax laws only partially stop the gap. Two changes are necessary to close the loophole;

1. Reduce the special exemption of gifts to any one person during any taxable year to \$500 instead of \$5,000 in the present law. The

present law was adopted on amendment offered by ex-Senator David Reed of Pennsylvania.

2. Increase the gift-tax rates to make them equal in every respect to the estate-tax rates.

It may be argued that the estate and gift-tax laws should encourage the aged to give away their property before death. With the changes I have proposed there will still remain inducement to give away property before death, for even these rates permit substantial savings if portions of property are distributed before death.

ALL TAX LOOPHOLES SHOULD BE STOPPED

It is well recognized that there are many loopholes in our present tax laws through which evasions the Government is losing hundreds of millions of dollars. In addition to the above-suggested amendments, I submit for the committee's consideration the following proposed amendments as being sound wholesome amendments that should be made to our tax laws.

1. Effective for any taxable year ending subsequent to the enactment of this act, the Revenue Act of 1934 is amended by adding a new section as follows:

SEC. 169. TRANSFERS TO EVADE TAXATION. (a) GIFTS OF HUSBAND AND WIFE: Where a husband transfers property by gift to his wife, or vice versa, and the husband and wife are living together, or, if separated, there has been no final settlement of their property rights, then the income derived from such property (and from property substituted therefor) shall be included in computing the net income of the spouse who made the transfer as if such transfer had not been made.

(b) FAMILY TRUST: (1) Where the husband or wife of the creator of a trust is a beneficiary of the trust and the husband and wife are living together or, if separated, there has been no final settlement of their property rights, or (2) where a child or a parent of the creator of the trust is a beneficiary of the trust and under the laws of descent an interest in the corpus of the trust or in the income accumulated for or distributed to the child or parent, as the case may be, may be vested in the creator of the trust, then that part of the income of the trust accumulated for, or distributable to, the husband or wife or child or parent of the creator of trust shall be included in computing the net income of the creator of the trust.

2. Effective for any taxable year ending subsequent to the enactment of this Act, section 22 of the Revenue Act of 1934 is amended by adding at the end thereof a new paragraph as follows:

(g) UNDIVIDED PROFITS OF CORPORATIONS: Any portion of the net income of a corporation subject to the tax imposed by section 13 (a) of this Act remaining undistributed at the close of its taxable year shall be accounted for by the stockholders of such corporation at the close of its taxable year in proportion to their respective shares. Within 45 days after the close of its taxable year and in accordance with rules and regulations prescribed by the Commissioner, with the approval of the Secretary, the corporation shall file a return showing the number of shares held by each stockholder and the amount of undivided net income allocable to each share and shall report to each stockholder the amount of undivided net income allocable to each share.

3. Effective for any taxable year ending subsequent to the enactment of this Act, the Revenue Act of 1934 is amended by adding a new section as follows:

SEC. 151. DISCLOSURE OF INCOME NOT REPORTED AS TAXABLE. Every person subject to the tax imposed by this title shall file with the collector a statement for each taxable year showing (1) all income for the year not reported on the income tax return for the year, (2) all distributions from corporations received within the year and not reported on the income tax for the year, and (3) all sales and exchanges of property other than property held primarily for sale in the course of a

trade or business and other than sales and exchanges reported on the income tax return for the year. Such statement shall be in accordance with rules and regulations prescribed by the Commissioner and approved by the Secretary, shall be filed on or before the 15th day of the third month following the close of the taxable year, and shall be duly verified under oath.

4. Effective upon the enactment of this act, section 501 (a) of the Revenue Act of 1932 is amended to read as follows:

(a) For the calendar year 1932 and each calendar year thereafter a tax, computed as provided in section 502, shall be imposed upon the transfer during such calendar year by any individual, resident or nonresident, of property by gift or by bequest, devise, or other testamentary disposition. The terms "gift", "gifts", or "net gifts" as used in this title include gifts inter vivos and testamentary gifts and dispositions.

5. *Board of Tax Appeals.*—The present Board of Tax Appeals was created in order to provide an independent review of the taxpayers' cases before assessment of deficiencies. The Bureau by reason of inadequate personnel and incompetent administration imposed ill considered and unreasonable assessments on taxpayers. Congress sought to stop this by providing an independent review body in the Treasury Department. Unfortunately, however, the members soon surrounded their review by the rules adopted by the equity courts of the District of Columbia. This turned what was intended to be a review body into a highly technical court, before which a taxpayer is forced to employ a specially trained lawyer and provide himself with expensive witnesses in order to be given the consideration which was intended without this great expense. In looking over the results of this body I find their rulings are so inconsistent that Bureau officials cannot be consistent in administration because of these inconsistencies. These decisions have laid the ground work and have been the cause of a flood of litigation equaled in no other country. Administration of our taxing laws is a practical matter. The courts have held that these statutes should be construed liberally in favor of the taxpayer. I see no reason why an administrative problem of arriving at the correct tax should be turned into such a mass of litigation as has resulted from the creation of the Board.

I, therefore, recommend that you give consideration to abolishing this body. In its stead you should create an independent review body composed not of lawyers only, but of practical tax men such as auditors, and engineers. Provide that this body shall function purely as a review body and without the technical requirements of a court. Provision could be made for taking testimony when a case was appealed so that the Board's findings will be given the same status as the findings of Commissioners of the Court of Claims.

The creation of such a body I regard as the first step in simplification and one of the most important ones. I, therefore, urge its consideration. The following amendment gives effect to my views on this subject.

TAX ADJUSTMENT BOARD. (a) There is hereby created in the Department of Treasury a board to be known as the "Tax Adjustment Board" (hereinafter referred to as the "Board"). The Board shall be composed of nine members. Each member shall be appointed by the President, by and with the advice and consent of the Senate, for a term of 6 years, and shall receive compensation at the rate of \$9,000 per annum. The Board shall at least annually designate a member to act as chairman. The Board shall have the powers, duties, and

functions described in this section and in section 6 and shall have the power to prescribe rules and regulations governing all appeals filed with it.

(b) Upon receipt of a notice of deficiency in income tax, estate tax, inheritance tax, or gift tax sent to the taxpayer in the manner provided by the Revenue Act of 1924 and subsequent acts, the taxpayer may, within 90 days, or within 90 days after the enactment of this act, whichever is the latest, file a notice of appeal with the Board. Such notice shall be in the form prescribed by the rules of the Board. Within the time provided by the rules of the Board, the taxpayer shall file a statement of all facts and reasons and such documents and papers, or verified copies thereof, which he intends to submit in support of the appeal, and shall, by registered mail, send to the Commissioner a copy of all such statements, reasons, documents and papers. Thereafter the Commissioner, if he desires to proceed further, shall file with the Board a copy of the income-tax return, a statement of the facts and reasons and documents relied upon by him and shall send a copy thereof to the taxpayer by registered mail.

(c) The Board shall have the function, power, and duty to hear such appeal and to review, adjust, and determine the tax liability in controversy. All proceedings before the Board shall be in accordance with rules prescribed by it: *Provided, however*, That all hearings shall be open to the public and all records, documents, and papers filed in any proceeding shall be open to public inspection.

(d) The Board shall notify the taxpayer of its decision by registered mail and send a copy thereof to the Commissioner. If dissatisfied with such decision, the taxpayer or the Commissioner may, within 60 days, file with the Board a notice of dissatisfaction. Such notice shall be in the form prescribed by the Board.

(e) Within 60 days from the filing of the notice of dissatisfaction, the Board shall transmit to the clerk of the United States District Court for the district in which it is located the collector's office to which was made the return of the tax in controversy, typewritten copies of the notice of dissatisfaction and of all statements, documents, and papers on file before the Board and relative to the notice of dissatisfaction. The matter shall thereupon be deemed to be an action in the said court ready for trial or hearing: *Provided, however*, That should it be deemed advisable by the court or a judge thereof that pleadings be filed, an order may issue directing the parties to file pleadings.

(f) A taxpayer who files a notice of dissatisfaction shall give bond, in a sum fixed by the Board not exceeding double the deficiency determined by the Board, and shall give security for the costs of the appeal to the district. Failure to file such bond and give such security shall render the notice of dissatisfaction and all proceedings thereunder null and void.

6. *Board of Tax Appeals abolished.*—Effective upon the ninetieth day following the enactment of this act, the Board of Tax Appeals established by section 900 of the Revenue Act of 1924 and section 1000 of the Revenue Act of 1926 is hereby abolished. No petition shall be filed with the Board of Tax Appeals with respect to any deficiency determined subsequent to the enactment of this act. All proceedings pending before such Board on the sixtieth day following the enactment of this act are hereby transferred to the Tax Adjust-

ment Board and all the powers, duties, and functions of the Board of Tax Appeals are hereby transferred to the Tax Adjustment Board for the disposition of such pending proceedings. After the Tax Adjustment Board has entered its decision in such pending proceedings, petitions for review may be filed in accordance with sections 1001, 1002, 1003, 1004, and 1005 of the Revenue Act of 1926. The provisions of this section shall not affect any proceeding pending before any appellate court reviewing the action of the Board of Tax Appeals.

In conclusion let me say that I hope the committee will give careful consideration to the above suggested bills and proposed amendments when they begin the consideration of writing the new tax bill of 1935.

The CHAIRMAN. When the President's message in respect to additional taxes was sent to the Congress it was thought by some that perhaps the purpose of the message could be accomplished by an amendment to the excise tax bill which at that time had passed the House and was before the Senate.

It was thought that that purpose might be accomplished by an amendment to the excise tax bill carrying out, so far as Congress deemed expedient, if at all, the recommendations carried in the President's message.

But there seemed to be considerable objection to that throughout the country. The thought seemed to be that it would be too hasty and that there would not be sufficient consideration given to a question of such importance and magnitude. So it was decided to let the excise tax bill be acted on by the Senate, and have the President's message referred to the Committee on Ways and Means for hearings, and such consideration as our committee might deem proper to give the subject.

On July 3 the Chairman of the Committee on Ways and Means issued a notice stating that public hearings would be commenced by this committee, in this committee room, beginning on July 8, 1935. That was 10 days ago.

That gave time enough for witnesses to be here. It gave the witnesses from Wednesday until Monday to get here, and those who could not be here by Monday had ample time and opportunity to be here by today. So I think no one can fairly say that they have not had an opportunity to be heard. Everyone who has requested to be heard up to today has been given a hearing, so far as the chairman is aware. If there are to be any further hearings they will be provided for through future action of the committee.

So I hope it will not be contended by the minority, or others interested in the subject throughout the country, that ample opportunity for hearing has not been given by this committee.

I have noticed this morning that during half of the time of the hearing, or more than half of the time, not a single one of the minority members was in his seat. This afternoon, until just now, the only representation the minority has had has been our fine young friend, the minority clerk, Mr. Rapp.

Our good friend, Mr. Jenkins, has come in just in time for the doxology, and he was not here to listen to the splendid witnesses we have had this afternoon.

I trust it will not be urged by the minority or anyone else that the chairman has not endeavored to be fair and has not given ample

opportunity to every one interested to present their views touching this very important matter.

If anyone has such a complaint to make, I would be glad to have them make it now, or to forever after hold their peace.

The committee will meet again on Monday, and so far as this bill is concerned, that is, the tax bill which has been under consideration, it will be taken up a little later. The chairman will confer with members of the committee on both sides in order to determine when is the opportune time to go into executive session in connection with that matter.

The chairman would like to make this further statement, in view of the statement made this morning by our friend of New York, Mr. Reed, a very able and fair member of the committee. He said he supposed a bill would be sent down from somewhere for the consideration of the committee.

The chairman thinks he is advised as to what has taken place in regard to the subject of preparing a bill, based on the President's message. There has been no bill sent down. There has been nothing more than a suggestion to the committee, so far as the chairman knows, nothing more than was contained in the President's message, with the thought that Congress would act on it at this session, leaving the study and consideration and preparation of the bill entirely to the Ways and Means Committee, and its consideration to the Congress.

I would like to state further, that when we meet in executive session to study the matter and give consideration to the testimony that has been given, the minority will be called in and will know everything that goes on, so far as the preparation of the bill is concerned.

Mr. JENKINS. Speaking wholly for myself, because I have no authority to speak for anyone else, I think the chairman's statement is very apropos at the conclusion of these hearings. I think that he really has very much to apologize for. Personally, I do not think that these hearings can be justified or cleared up by a last minute apology. Never before, at least during the time of my service on this committee or any other committee, have we ever gone through the farce of holding hearings without a bill.

The CHAIRMAN. I resent the suggestion that I made an apologetic statement. So far as the hearings are concerned, if the majority members of the committee had not attended more regularly than the minority members did, the hearings would have broken down several times, because there would have been no members of the committee here to go ahead with them. I have no apology to make for what has been done, and the statement I made was in no sense an apology. I think that is a gratuitous statement on the part of my good friend, to say that I made an apologetic statement.

Mr. HILL. Certainly a statement of the facts as to the notice on which the hearings were based—that is the notice calling for the hearings, with the announcement of the time they would begin and of the scope within which the hearings would be confined; the statement of the proceedings had, and of the fact that all the witnesses who asked to be heard have been heard—the statement of those facts cannot be called an apology. It was simply a plain statement of the facts, and it had no element of apology in it. I think that the statement made by Mr. Jenkins, when he reflects on it, will be withdrawn from the record.

Mr. JENKINS. I do not think so.

The CHAIRMAN. He may let it stand, so far as I am concerned.

Mr. JENKINS. Never before have hearings on such a subject been held without a bill.

Mr. HILL. That statement is incorrect. It is not the practice in writing tax bills or in writing tariff bills to have the bills written and introduced before the hearings are held. It has been the unbroken practice during the time that I have been a member of this committee that the hearings are first had and the bills written after the hearings are closed.

Mr. JENKINS. We have been in session now since the 1st of January, and I ask the members on the majority side of this committee this question: Why is it that up until the last minute we have had no tax bill under consideration? Why was that, if there is no "must" program in connection with it?

The CHAIRMAN. There has been one tax bill enacted into law. So far as this bill is concerned, I did not know what was in the President's mind when he sent his message. I assumed at that time that he wanted to lay the matter before Congress to be acted upon at the next session. Then some members of the gentleman's own party got up on their hind legs and said that the President was insincere. They said he was not sincere in wanting to go ahead and do it now. We know that there was no foundation for such a statement, but, inasmuch as his sincerity has been challenged and questioned, I will say that, so far as I know, he is ready to go forward, and the party to which he belongs is ready to go forward. There was no "must" about it then; there is not any "must" about it now, and there never has been. The President never has done that, to my knowledge. I heard him state the other night that he had never made any "must" demand on Congress. He said that he sent his messages to Congress, concerning which he was sincere, and that after that, his duty was discharged. He said he never had demanded anything, or put the word "must" in any of his messages.

I know that so far as I am concerned, as chairman of this committee he has never intimated to me that this must be done, and no other legislation which it is the responsibility of this committee to consider has ever come to me as a "must" bill. That is a statement that has been made by those who are enemies of the President, and who would like to weaken, cripple, and discredit the administration, by holding out to the country the idea that he is a dictator.

Mr. JENKINS. I would like to know, in all sincerity, what the chairman thinks about this proposition. Of course, I know that the majority members of the Ways and Means Committee are 100 percent perfect. I am willing to admit that the majority members of the Ways and Means Committee are today 100 percent perfect.

The CHAIRMAN. What is that statement?

Mr. JENKINS. They are perfect. We all admit, of course, that the legislative needs of this country should be taken care of by Congress, but we have been kept in session all this length of time, and this program is brought up at the last minute. If there has been no duress or force employed, how can the gentleman justify his position in taking this tax matter up at a time when Congress was ready to adjourn? If there has been no duress, how do you account for this change in

the whole legislative program, at the last minute, when Congress was ready to adjourn?

The CHAIRMAN. The message came in last week, and we took it up.

Mr. JENKINS. Last week, when Congress was ready to adjourn.

The CHAIRMAN. I have explained all that I know about it, and I still disclaim—

Mr. JENKINS (interposing). I think you should be giving an apology.

Mr. McCORMACK. Mr. Chairman, is there any further business before the committee this afternoon? If not, I have other things to do besides listening to political harangues from the gentleman. If there is nothing further before us, I move that the committee adjourn. (Thereupon, at 3:15 p. m., the committee adjourned.)

LETTER FROM A. E. DUNCAN, COMMERCIAL CREDIT CO., BALTIMORE, MD.

COMMERCIAL CREDIT CO.,
Baltimore, July 13, 1935.

HON. ROBERT L. DOUGHTON,
Chairman of the Ways and Means Committee,
Washington, D. C.

SIR: It is my best judgment that the average business and financial man is favorably disposed to a reasonable increase in Federal income and inheritance taxes if coupled with a sincere effort to curtail existing lavish and wasteful expenditures, and as a definite step toward actually balancing the entire Federal Budget. No such policy is as yet indicated.

Ownership of most large fortunes is usually vested in a few enterprises with which the owner is actively connected. Upon his death, it is proposed to practically confiscate his estate to pay the Government in cash and not in kind an excessive inheritance tax. This means that most of the best assets of the estate must be sold, and often at unfavorable prices, and the heirs must inherit their portion in the slower and largely intangible assets, much of which may not even be producing an income. I have for many years favored a stiff inheritance tax on large estates, but certainly not one that is confiscatory.

To my mind, the Federal income tax on corporate earnings should be identical, as at present, or there should first be an exemption on all such earnings of, say, 4 percent to 6 percent on invested capital, or a further graduated surtax at increasing rates as the earnings on invested capital may increase. The proposed scheme of 10 percent to 17½ percent, based purely on aggregate dollars earned, with no regard to invested capital, is both unfair and unsound.

A corporation with \$500,000,000 invested capital earns only 4 percent or \$20,000,000. It is proposed to "soak" the stockholders of such corporation 17½ percent or \$3,500,000 income tax, thereby reducing their earnings to \$16,500,000, or only 3.3 percent on invested capital. Another corporation with \$500,000 invested capital earns 30 percent or \$150,000. It is to be taxed only 15 percent or \$22,500, thereby reducing its earnings to \$127,500, but still leaving 25.5 percent on invested capital for its stockholders. How can one believe this is fair?

It is most discouraging to millions of shareholders and to corporate executives for their companies to have to pay anything like 17½ percent of their net income for Federal income tax alone, to which, of course, must be added many other Federal, State, and municipal taxes. A clear-cut program should be formulated to greatly curtail expenditures, balance the Budget, and reduce the national debt, instead of further increasing taxes so that still more money can be wasted.

Very truly yours,

A. E. DUNCAN

LETTER FROM W. E. WILLIAMS, STAR, N. C.

STAR, N. C., July 12, 1935.

HON. ROBERT L. DOUGHTON,
Chairman of Ways and Means Committee,
House of Representatives, Washington, D. C.

DEAR MR. DOUGHTON: I have just mailed to Mr. Samuel B. Hill, chairman of your tax subcommittee, a letter, a copy of which I enclose herewith. I send you

a copy of the letter not only because of your position as Chairman of the Ways and Means Committee but also because I know, from following your record, that you are progressive and fair-minded. I hope and feel that you will give the letter due consideration. I sent the original directly to Mr. Hill because his subcommittee is already making up the bill for new taxes on incomes, inheritances, etc. But the letter is intended for your consideration no less than for his.

I have studied intermittently the principles of income and inheritance taxes for more than 20 years, especially concerning their use to prevent the concentration of wealth and to redistribute a reasonable amount of the wealth already concentrated. I have concluded that an elastic tax rate for most incomes and inheritances, plus a maximum limit for both, is not only the best but also the only orderly and nonrevolutionary way that it can be done. I have consulted many people on the subject and have not had as many as one to disagree with the principle, although most of them consider the rate suggested in my letter to Mr. Hill not drastic enough. Many favor Huey Long's capital levy which has no attraction for me. Yet I feel that the redistribution of concentrated wealth is the most momentous question before the American people today. I have not the slightest idea that it will not be an issue in the campaign next year; and it should be unless this Congress makes a reasonable effort in that direction. To me it is simply a question of whether the friends of sanity and order will do the job or let the radicals do it by unreasonable and revolutionary means. And a mere hypocritical gesture will not deceive the electorate.

I cannot close this letter without saying that I regard you as a true friend of the common people. I regret that there are not two of you, so that one could be Governor of North Carolina and the other remain Chairman of the Ways and Means Committee. Perhaps you made a wise choice but I was deeply disappointed when you decided not to accept the governorship. I say "accept" advisedly, for the people were ready to give it to you. I trust that you will have continued success and that we can make of the "new deal" even a better deal.

With all good wishes I am,
Respectfully yours,

WM. E. WILLIAMS.

STAR, N. C., July 11, 1935.

HON. SAMUEL B. HILL,
*Chairman Ways and Means Tax Subcommittee,
House of Representatives, Washington, D. C.*

DEAR SIR: In formulating the bill for new taxes on incomes and inheritances may I suggest that your committee arrange for us little fellows to have a part? I have never had the privilege of paying an income tax because I have several dependents and my income usually falls between \$1,000 and \$2,000 a year. It may be that the Government would accept any amount that I should feel inclined to give. But I am not anxious to make any contribution that is not required of others similarly situated and unless those in better circumstances are required to pay according to their ability.

Frankly, I cannot see the desirability of a graduated scale when we can have an elastic rate that will keep in exact direct ratio with the net income and thus be simpler and more equitable. Nor, except for incomes below \$1,000, do I see the need for exemptions; for the rate on all incomes can and should be so selected that the tax will not be burdensome to any one nor affect his standard of living and yet produce the necessary revenue and serve quietly and orderly as a redistributor of concentrated wealth, the greatest curse of our country.

I am not prejudiced for or against any particular rate. I feel that your committee and Congress are in better position to know the requirements of the times and the rate necessary for meeting these requirements. But as an illustration of what I mean I suggest:

For all net incomes of \$1,000 to \$500,000, inclusive, a rate equal to that fractional part of 50 percent as the net income is of \$500,000.

For all net incomes of \$500,000 or more a tax equal to the difference between the net income and \$250,000.

A tax for gifts and inheritances laid on the same plan will operate in the same way. Public sentiment may not be ready to demand a rate for gifts and inheritances equal to the rate for incomes, but nearly all with whom I have consulted favor including all acquisitions in the above or similar schedule. I have not found one who thinks the rate for gifts and inheritances should be less than one-tenth the rate for incomes. They all favor maximum limits for incomes and

inheritances and most of them consider the limit implied in the above-suggested schedule too high.

From considerable study of the subject I am firmly convinced that an elastic rate for income and inheritance taxes is the best solution that can be found. I intend to circulate a petition to Congress for such a plan. Meanwhile I will gratefully appreciate your consideration and expression of your opinion.

Respectfully yours,

WM. E. WILLIAMS.

BRIEF FILED BY HARRY E. SHELDON, PRESIDENT ALLEGHENY STEEL CO.

ALLEGHENY STEEL CO.,
Brackenridge, Pa., July 10, 1935.

Hon. R. L. DOUGHTON,
Chairman Ways and Means Committee,
House of Representatives, Washington, D. C.

DEAR SIR: I would like to give my views briefly on these tax problems.

First. If I understand the message of the President correctly, he proposes in effect to have the Government confiscate, by means of income, inheritance, estate, and gift taxes, the income and earnings of individuals over and above certain amounts which so far are more or less nebulous. In addition to this it is proposed to perhaps increase the income tax on corporations, which in effect comes out of the stockholders of the corporations who are in turn taxed on the dividends which they receive from the corporations. If this program is carried to the extent to which it may possibly go there will be no income left for the individuals after the exaction of the taxes herein referred to and the proposal of the Government to raise additional revenue, not only to pay operating expenses but to pay off its debts, will absolutely fail.

Second. I call attention to the illustration given in the President's message relating to higher income taxes and the million-dollar brackets wherein he makes this statement. "In other words while the rate for a man with a \$6,000 income is double the rate for one with a \$4,000 income, a man having a five-million-dollar annual income pays at the same rate as one whose income is one million dollars."

This is a statement which seems to me rather unfair and misleading for the reason that while it is true the man with the \$6,000 income pays double the tax of the one with the \$4,000 income, yet this is due entirely to the fact that the \$4,000 income pays no surtax but only the normal tax, and the \$6,000 income pays a surtax but the same normal tax. In other words the normal tax on both incomes is at the same rate and the additional amount paid by the \$6,000 income is due to the surtax. Likewise there is an inference that the man with the five-million-dollar income should pay much more than the million-dollar income, because he pays at the same rate but you know that this is not the fair way to present this matter to the people of the country as a whole, because the man with the million-dollar income under the present rates pays \$533,000 in taxes, whereas the man with the five-million dollar income pays \$2,893,000 of taxes in addition to the normal tax. There is no justification for charging the man with the higher income a higher rate. He should be on a basis of equality with other taxpayers, and when he pays a graduated rate up to 59 percent it would seem as though he is paying all that could be justly expected.

Third. Now with respect to corporations. The President states that the corporation income tax should be graduated according to the size of corporation's income in place of a uniform rate. This, as we understand it, is contrary to all the theories of taxation which hold that the corporation, whether it is large or small, should not be discriminated against because of its size. The idea is to get all the revenue possible from all corporate profits provided there are profits to tax. The message states that the small corporation pays the same rate as the large corporation a thousand times its size. This we understand is the proper theory of taxation, and it is the exact theory of the Government and other departments of the Government. Take for instance railroad rates. One of the cardinal principles is that there shall be no discrimination against shippers and that a shipper of one carload of material is entitled to exactly the same rate as the shipper of 1,000 carloads of similar material.

There is no doubt but what excessive taxation tends to dry up the sources of revenue, and it also tends to curtail business so as to restrict profits. If the Government wishes to prosper from a tax standpoint it should put industry and individuals in a position where they are permitted to carry on their business without all of the burdensome restrictions that are placed around them today, which

tend to hamper them on all sides, placing upon them onerous burdens which are not required for the conduct of business and restricting operations to their decided disadvantage as well as to employees in industry.

If the administration could devote its time to promoting the welfare of industry rather than to carry out a program of social reform, which will again place burdens on industry to such an extent that it will materially reduce income available for taxation, I believe the country would go ahead with confidence, the great burden of unemployment would be very materially reduced and the people in the country would again have confidence not only in the country but in themselves.

Just by way of illustration the State of Pennsylvania has recently enacted a capital-stock tax which on the basis of our 1934 return would increase this tax about \$68,000. Under another basis of figuring which might be used by the Pennsylvania tax authorities this tax would be increased \$108,000. The State has also recently enacted a 6-percent tax on net income which on the basis of 1935 returns up to date will increase our taxes in this respect approximately \$60,000. These two taxes alone would take 15 percent of our net income for 1934, without giving consideration to the present Federal income tax and such nuisance taxes both Federal and State as affect our business. If on top of these taxes some thought is given to the other new tax levies which are being discussed in Washington, such as old-age pensions, unemployment insurance, and other similar measures, it is not difficult to predict that there will be little or no income left for distribution among stockholders so as to be subject to the payment of Federal income taxes.

Very truly yours,

ALLEGHENY STEEL CO.,
HARRY E. SHELDON, *President*.

BRIEF FILED BY ALBJON A. HARTWELL, EXECUTIVE SECRETARY, INTERPROFESSIONAL ASSOCIATION FOR SOCIAL INSURANCE, NEW YORK CITY

Any tax bill worthy of consideration by the Congress at this time must aim to satisfy three requirements. These are:

I. Adequate revenue, having as the specific purpose meeting the growing social needs of the Nation;

II. Progression of tax rate in accordance with the principle of ability to pay;

III. Successful administration and enforcement.

I. Adequate revenue, having as the specific purpose meeting the growing social needs of the Nation.—The test of adequacy of revenue should be looked for in the extent of current social needs. As a result of the current economic depression, and because of its peculiar nature, millions of American families and unattached wage earners have become permanently dependent for sustenance upon Government succor, because of unemployment; millions of American farmers, farm tenants, and share-croppers have permanently lost and are daily losing their means of livelihood, crushed under unbearable debt burdens, or are becoming disemployed because of a shrinking market; thousands of educational institutions, recreational and cultural facilities have been closed out, denying to millions of our citizens their very basic cultural requirements.

These social needs cannot be long left unsatisfied, and the National Government must take on the task and expense of meeting them. It now devolves upon the National Government to enact a genuine, integrated system of unemployment, old age, and other forms of social insurance, such as is contemplated in H. R. 2827. It now devolves upon the National Government to lift the debt burden off the farmers' backs, through a long-range program of refinancing at low interest rates, through moratoria, and to alleviate his conditions through such other means as are proposed in the farmers' emergency relief bill, H. R. 3471.

Provision must be made to meet the claims of the World War veterans, in line with such measures as are indicated in the soldiers' bonus bill, H. R. 8365. Universal free education in the arts and sciences must be made available to all youths of the country up to and through the conventional 4-year college course; and such free educational, recreational and cultural facilities, music, drama, etc., as will make for happier and more wholesome American citizenship. The health of the citizens, so much now neglected through increasing mass poverty, should be restored and safeguarded through the enactment of an appropriate workers health insurance bill.

It is not necessary to detail these needs on this occasion. The members of this committee are as fully aware of them as most of us are. Some of them were

discussed in the course of the hearings on H. R. 2827. The point that must be emphasized here is that these needs call for expenditures of billions, that the few hundred million dollars which is all that some estimators have been able to envision on the basis of the President's suggestions can hardly scratch the surface. We submit that the American people have a natural right to the satisfaction of these needs, and to look to their National Government to provide for these needs from the accumulated and potential wealth of the country through its taxing power.

II. *Progression of tax rate in accordance with the principle of ability to pay.*—It is the accepted theory of modern taxation that the guiding policy of Federal taxation should be "the widely accepted principle that taxes should be levied in proportion to ability to pay * * *", to use the President's words of his tax message of June 19. This is the principle of the income tax, and applies to personal as well as corporate income, of whatever origin. In the case of individuals, it applies to earned as well as unearned income, e. g., to salaries, as well as to gifts and inheritance.

In the case of corporations, it applies to operating as well as to nonoperating income; to the earnings from manufacture, say, in the case of an industrial corporation, and to the earnings from the sale of assets and from investments in the securities of other corporations. The only distinction that might be made in taxing the different kinds of income is that earned income and operating income should be taxed at a lower rate than unearned and nonoperating income. Thus, income from gifts and inheritance might be taxed more heavily than income from salaries, and corporate income from investment—from the sale of assets, and corporate surpluses beyond legitimate amounts—might be taxed more heavily than the corporation income derived from its chartered undertakings.

The tax rate should, of course, be graduated, as it is under the existing law; that is, the higher incomes should be taxed at higher rates. But while this has been true in theory, even in this country, our revenue laws, to use the President's words again, "have operated in many ways to the unfair advantage of the few * * *". This has been so, in the first place, because our tax rates, although graduated, have not been truly progressive, that is, they have not been graded so that persons of higher incomes would pay higher proportionate total taxes. Yet the surpluses above family essentials of the wealthier classes could logically, as well as psychologically, bear proportionately higher taxes. But in this country, these classes have paid, proportionately, a great deal less, as may be seen from table 1. Curiously, it also happens that the tax percentage paid by the highest income class in 1933 was smaller than that paid by the next lower income class. This is a striking illustration of tax avoidance practiced by those most able to pay. The table follows:

TABLE 1.—Average tax percent paid on individual incomes in 1933, by income class

Income class	Net income returns	Net tax paid	Average tax
			<i>Percent</i>
Less than \$5,000.....	\$6,792,000,000	\$40,000,000	0.6
\$5,000-\$10,000.....	1,478,000,000	34,000,000	2.3
\$10,000-\$25,000.....	1,097,000,000	54,000,000	4.9
\$25,000-\$50,000.....	621,000,000	52,000,000	8.4
\$50,000-\$100,000.....	395,000,000	57,000,000	14.4
\$100,000-\$150,000.....	128,090,000	30,000,000	23.3
\$150,000-\$300,000.....	139,000,000	40,000,000	28.8
\$300,000-\$500,000.....	54,000,000	18,000,000	33.3
\$500,000-\$1,000,000.....	60,000,000	22,000,000	36.6
\$1,000,000 and over.....	82,000,000	26,000,000	31.7

We take as a further illustration of this fact, that our revenue laws "have operated in many ways to the unfair advantage of the few * * *", the shift in the relative amount of taxes imposed on the various strata of the population that has taken place in recent years through the failure to increase income taxes in the higher brackets with the increase in the needs for Federal revenue. We examine the figures in table 2.

Internal revenue of the United States Government by classes of tax for the fiscal years 1930-35¹

Class of tax	1930		1931		1932	
	Amount	Percent	Amount	Percent	Amount	Percent
Corporate income.....	1,263	41.5	1,026	42.3	630	40.4
Individual income.....	1,147	37.8	834	34.3	427	27.4
Total income.....	2,410	79.7	1,860	76.6	1,057	67.8
Indirect taxes.....	630	20.7	568	23.4	501	32.2
Processing taxes.....						
Total revenue.....	3,040	100	2,428	100	1,558	100

Class of tax	1933		1934		1935	
	Amount	Percent	Amount	Percent	Amount	Percent
Corporate income.....	394	24.3	398	14.9	573	17.4
Individual income.....	353	21.8	420	15.7	526	15.9
Total income.....	747	46.1	818	30.6	1,099	33.3
Indirect taxes.....	873	53.9	1,484	55.5	1,671	50.7
Processing taxes.....			371	13.9	525	16.0
Total revenue.....	1,620	100	2,673	100	3,297	100

¹ Amounts in millions of dollars. In the "indirect" taxes we include the small amounts of estates and gift taxes.

Here we see in striking fashion how the tax burden of the country, as far as Federal revenues are concerned, has been placed in ever-increasing proportion on the shoulders of the general mass of consumers. The income tax alone can be a tax largely on those who can afford to pay it. All other, indirect, taxes—customs duties, excise taxes, the processing tax, are consumption taxes, and they are shifted by those upon whom they are imposed, through additions to the price of commodities and services, on to the masses of the people. And we all know that all such taxes, sales taxes that they are, fall heaviest on the poorest strata of the population. In this table we note that the proportion of the revenues derived from the income taxes has shrunk to less than 40 percent in the course of the years of depression—precisely during the years in which the masses of the people have suffered most. As the New York Times in a recent editorial put it (July 11, 1935):

"It is interesting to note [in these figures] * * * a striking change in the various sources from which [revenue] * * * is derived. In 1930, when the budget was last balanced * * * 80 percent of all internal revenue receipts came from personal and corporate income taxes. The comparable figure for the year just ended is only 33 percent. Other sources * * * have come to the fore. They include liquor taxes, processing taxes, and various excise taxes first imposed in 1932 on the sale of automobiles, radio sets, and a long list of other manufactured articles.

"In other words, the bulk of the Government's revenue is now derived, not from income taxes paid directly * * * but from a large number of miscellaneous levies paid indirectly * * *. Constantly throughout the year, as he [the man with low income] pays a cent-a-gallon tax on gasoline, 6 cents on a package of cigarettes, a few cents as a processing tax concealed in the price of a cotton shirt or a cut of meat, 5 percent on a cake of toilet soap or 10 percent on a ticket to a movie, he is contributing to the revenues of the Federal Government."

His proportion to the total tax has increased from 21 percent in 1930 to 67 percent in 1935. This does not include the State and local sales taxes enacted in the past year or two, which most directly impose even further disproportionate burdens on the poorest of the American people.

Yet this is not all. Even in the case of the income tax, the burden has been more and more shifted to the lower incomes. How this applies to the Federal income taxes is clearly brought out in table 3.

TABLE 3.—*Amount and proportion of net income taxes paid by each income class in 1930-33*

[Amount in thousands of dollars]

Income class	1930		1931		1932		1933	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Under \$5,000-----	\$9,969	2.1	\$7,265	3.0	\$43,073	13.0	\$39,700	10.6
\$5,000-\$10,000-----	17,448	3.7	12,407	5.0	35,615	10.8	34,129	9.2
\$10,000-\$25,000-----	49,561	10.3	31,897	13.0	50,150	15.2	51,256	14.5
\$25,000-\$50,000-----	72,708	15.3	40,096	16.3	43,546	13.2	51,598	13.8
\$50,000-\$100,000-----	87,379	18.3	44,780	18.2	47,150	14.3	56,562	15.2
\$100,000 and over-----	239,652	50.3	109,682	44.5	110,427	33.5	136,722	36.7
Total-----	476,717	100.0	246,127	100.0	329,962	100.0	372,968	100.0

If for the fiscal year 1930 citizens with annual incomes below \$5,000, and these include most of the professional workers, paid 2.1 percent of the total Federal income tax, in 1932 this group paid 13 percent, and in 1933 they paid 10.6 percent, all those of \$100,000 income and above paid 50.3 percent of the total in 1930, 33.5 percent in 1932, and 36.7 percent in 1933. And this, be it remembered, has occurred in the face of more than a two-fold increase in the proportion of the total tax burden imposed on the least able citizens through the shift from direct to indirect taxation.

The figures for the collection of the individual income tax by income class for the years 1934 and 1935 are not yet available. But we know from the nature of the shift in the tax rate in these years what these will show when they are made available in print. We note, first, the shifts in the amounts of income tax which the various income classes were asked to pay in 1933 and in 1934. For purposes of further comparison we cite side by side with the figures of the Federal tax those of the income tax of New York State, and for both married and unmarried persons

Tables 4 and 5 are reproduced from the New York Times of March 15, 1934.

TABLE 4.—*Income tax, New York State and Federal, paid by unmarried persons in 1933 and in 1934 in selected income classes*

Income class	New York State		Federal	
	1933	1934	1933	1934
\$1,500-----	None	\$15	\$20	\$35
\$2,000-----	None	30	40	70
\$3,000-----	\$10	60	90	140
\$4,000-----	30	90	150	210
\$5,000-----	50	120	210	280
\$6,000-----	70	150	310	390
\$7,000-----	90	180	420	510
\$8,000-----	110	210	530	630
\$9,000-----	130	240	640	750
\$10,000-----	150	270	750	870
\$50,000-----	1,700	2,250	10,420	10,970
\$100,000-----	4,650	5,730	34,870	35,950

TABLE 5.—*Income tax, New York State and Federal, paid by married persons (2 dependents) in 1933 and 1934 in selected income classes*

Income class	New York State		Federal	
	1933	1934	1933	1934
\$3,500.....		\$6	\$8	\$14
\$4,000.....		21	28	49
\$5,000.....	\$4	51	72	119
\$6,000.....	24	81	132	189
\$7,000.....	44	111	202	269
\$8,000.....	64	141	300	377
\$9,000.....	84	171	410	497
\$10,000.....	104	201	520	617
\$50,000.....	1,608	2,135	10,144	10,671
\$100,000.....	4,512	5,569	34,548	35,605

In these two tables we see how in both the State and the Federal taxes, and in the case of both married and unmarried persons, the increase between 1933 and 1934 was greater for the lower incomes, which, as we have said, applies mostly to the professional workers and small business men, than for the larger incomes. This was accomplished both by lowering the exemptions and, in the case of New York State, by the imposition of a flat 1 percent emergency tax on gross income. Thus, in the State of New York, the tax paid in 1934 on a \$3,000 income by an unmarried person was six times as large as in 1933; on a \$6,000 income a little over twice as much. But on a \$10,000 income, the increase amounted to 80 percent; on a \$50,000 income 32 percent; and on a \$100,000 income 23 percent. Married persons of the \$5,000 class in New York State in 1934 paid nearly 13 times as much tax as in 1933; but this increase was graded down on the higher incomes. The \$10,000 a year family in 1934 paid 93 percent more than in 1933; \$50,000-a-year families paid not quite 43 percent more; and the \$100,000-a-year family paid only 23 percent more in 1934 than in 1933.

So also as regards Federal income taxes. If, for the unmarried person, of less than \$5,000-a-year income, the increase in taxes between 1933 and 1934 ranged between 75 and 33 percent, for those of \$50,000 annual income the increase amounted only to 5 percent, and for those of \$100,000 income, only to 3 percent. In the case of the married persons the discrimination in favor of the rich was equally striking. For the two brackets below \$5,000, the increases amounted to 75 and 70 percent, respectively; for those of \$50,000 and \$100,000 annual income, the increases of the amount of tax between 1933 and 1934 were again 5 and 3 percent, respectively.

That this has been so has been due, as we have already said, in the first place to the fact that our income tax rates have not been truly progressive, but rather regressive, and in the second place, to the devious ways through which those most able to pay, citizens as well as corporations of the larger incomes, have managed to escape their just tax. The Congress is well aware of some of these sharp practices of avoidance and evasion. Congressional inquiries of recent years have brought many of them to light: Split-ups of total income among members of the family so as to escape the higher tax rates; offsetting capital gains by actual or fictitious capital losses; investing surplus funds in tax-exempt securities. These avenues of escape are not available to the citizen of smaller income, to the professional and fixed salary workers, should these wish to avoid meeting their obligations to the Government. Thus it comes about that their tax burden increases, while that of the recipients of income in the higher brackets is shifted or split, is avoided or evaded.

Who, then, should pay these taxes that are needed to meet the demands of the unemployed and disemployed millions of workers and farmers, for bread and security, and for a modicum of cheer, and how can the imposition of these taxes be enforced?

The recent studies of the Brookings Institution throw considerable light on the first part of our question. Taking the pre-depression years as the field of their investigations, the scholars of the Brookings Institution found that in 1929, for instance: 21 percent of American families earned less than \$1,000 a year; 42 percent of American families earned less than \$1,500 a year; 71 percent of American families earned less than \$2,500 a year; but that only 8 percent of American families earned in excess of \$5,000 a year, and only 2.3 percent of American families earned in excess of \$10,000 a year.

Thus, it turned out that the top 0.1 percent of the 27,500,000 families, the 36,000 families whose income ranged from \$75,000 and up a year, received as much as the lower 42 percent of the families.

Again, calculating that at 1929 prices \$2,000 a year was required to meet the basic needs of an American family, the Brookings Institution goes on to show that in 1929 16,000,000 American families, or 60 percent of the total, fell below this standard. And we know from the studies of the Research and Planning Division of the National Recovery Administration, that this concentration of wealth and income was further accentuated in the years of the depression. We know also that this tendency toward increasing concentration of wealth and income applies similarly to corporations. As regards individual incomes we learn from Statistics of Income for 1933 that those whose income was \$100,000 and over numbered 1,787 in 1932 and 2,047 in 1933, and that their total income was increased from 373,806 million dollars in 1932 to 463,004 million dollars in 1933, an increase of 15 percent in the number of this wealthy group and a still larger increase, 24 percent, in their concentrated income receipts.

As regards corporations we learn from Business Week of July 6, 1935, that those whose net earnings amounted to \$1,000,000 or over in 1928 constituted 0.5 percent of the total number of corporations and accounted for 55.9 percent of the total corporate net income that year. But in 1932, this same class of corporation constituted only 0.4 percent of the total number, but accounted for 58 percent of the total corporate income.

The Brookings Institution studies also disclosed the fact, as it might well have been surmised, that most of the individual savings come from those whose annual income runs over \$5,000 a year. Indeed, the 631,000 families of the income classes \$10,000 a year and over, that is, less than 1 percent of the families, accounted for 67 percent of the total family savings of the country in 1929.

How then tap these sources of wealth and income to raise the billions of dollars the Government must now raise in order to provide for the ever-growing social needs of the country? It is not our intention, nor do we think it our function, to present a minutely worked out tax plan for your consideration. Your committee has that as its task. We think, however, that we can serve the committee, as well as express the point of view of the millions of professional workers and small-income taxpayers, if we but enumerate some of the sources and origins of income and earnings which offer the most legitimate objects of taxation, those that would feel the tax burden least as well as provide most revenue for the Government.

In a general way we would have Congress tax estates, as it does now, but at a much higher rate than now. Congress should tax inheritance and gifts, but, as unearned income, at a much higher rate than earned income. The British "death" rates are suggested as a type to be adopted in this country. As shown in the appendix, these would yield considerable revenue to the National Government. Congress should tax corporation earnings at higher rates than now, should strictly limit exemptions, and allowances for depreciation and obsolescence; the war-time excess-profits tax should be reimposed at a much higher rate; corporation surpluses should be taxed and the amount of reinvestment of corporate earnings should be limited. Salaries of corporation officials should be limited to a maximum, say, of those paid to members of the President's Cabinet. Bonuses and extra compensation should be limited to no more than, say, one-half of the salary. No individual annual income, from whatever source or sources, should be permitted to exceed the annual salary of the President of the United States. Bequests to foundations should be included in the total wealth of an individual or a family for purposes of determining the tax rate to be applied. A refund, at the rate applicable to the amount of the bequest might then be made to the donor. Finally, Congress should tax tax-exempt securities, not only to increase the revenues of the State, but also to eradicate this one of the most patent means of escape from taxation provided by the Government itself.

But none of the measures for raising revenue here suggested would be sufficiently effective unless new care be taken to eradicate the vicious and unpatriotic practice of avoiding and evading taxes imposed by the State. Hence, we take the liberty of adding several suggestions for improving our revenue laws with the aim in view of minimizing these evasions as much as possible.

SUGGESTED CHANGES IN PRESENT FEDERAL INTERNAL REVENUE LAWS

1. *Depreciation and depletion.*—Eliminate these deductions entirely by repealing section 23 (l) (m) and (n) and section 114 of the Revenue Act of 1934.

There are other deductions that are proper from an accounting point of view which are not allowed as deductions from gross income. There is no legal bar to the elimination of these deductions. Repeal of these sections would increase

corporate income by 39½ percent on basis of 1930 corporate returns (Prevention of Tax Avoidance. Preliminary report of a subcommittee of the Committee of Ways and Means 1933).

2. *Exchanges and reorganizations.*—Tax all gains from exchanges of property or from securities acquired through reorganizations or the formation of holding companies by repealing section 112 of the Revenue Act of 1934 in its entirety. Limit losses from such devices to amount of gains from similar transactions. There is no legal bar to this suggested repeal. At 1932 rates, the subcommittee referred to above estimated this would save to the Government \$18,000,000 annually. Our estimate would place this at a much higher figure, basing our judgement on the wide prevalence of this practice of tax evasion.

3. *Constitutional amendment.*—Enact an amendment necessary to tax income from Federal, State, and municipal securities—that is, tax-exempt securities—as well perhaps as to tax stock dividends and dividends received by one corporation from another. Through the latter the Government would command one strong weapon to curb holding companies. In fact, there seems to be no good reason why one corporation should be permitted to own stock in another company at all. Eliminating that practice would result in large additional income to States, as numerous companies now organize sales companies to defeat State franchise and other corporate taxes.

4. *Credits and exemptions.*—(a) Restore \$3,000 exemption allowed corporations under 1928 act, but limit deduction to corporations having a net income of \$10,000 or less.

(b) Increase personal exemptions to \$3,500 for husband or wife living together and for head of a household and to \$1,500 for single individual as allowed by Revenue Act of 1928, section 25 (b). Increase credit for dependents from \$400 per person as allowed by section 25 (b) (2) of Revenue Act of 1934 to \$500 per person by amending that section accordingly.

(c) Eliminate personal exemption and credit for dependents in computing surtax by amending section 12 of Revenue Act of 1934 accordingly.

(d) Increase earned income credit to 25 percent instead of 10 percent as allowed by section 25 of present law, and step up the rates on all unearned income.

(e) Make joint returns by husband and wife compulsory.

5. *Capital gains and losses.*—Amend section 117 (a) of present act to tax capital gains at full value of gain realized, regardless of time held.

6. *Partnerships.*—Disallow partnership losses from income received from other sources by partners.

7. *Consolidated returns.*—Amend section 141 of the Revenue Act of 1934 by abolishing right of railroads to file consolidated returns. Make it mandatory on Commissioner of Internal Revenue to compel consolidated returns of corporations that attempt to defeat the contemplated graduated corporation income tax by splitting up their business into a number of subsidiaries and affiliates.

8. *Estate and gift taxes.*—Follow suggestion of Ways and Means subcommittee to tax all legacies and bequests from estates as income in the hands of the recipients, but extend the same provision to gifts. Continue to tax donor whether inter vivos, by will, or operation of law on privilege of making transfers. Further amend the present law by stepping up the rates to 95 percent of gifts and estates in excess of one million dollars. Make gifts cumulative so that if a donor attempts to spread his gifts over a period of years he will have to pay the difference between the tax paid in the prior year or years whenever he chooses to make additional gifts. Treat all gifts as made in contemplation of death so that all transfers made during the lifetime of a decedent would be added to this gross estate. Credit the estate tax to the extent of gift taxes paid by decedent during his lifetime.

9. *Compromises.*—Amend section 3229 of the Revised Statutes to prohibit the Commissioner of Internal Revenue from compromising any tax or penalty amounting to more than \$1,000.

It has been our aim in the presentation of these suggestions to steer clear of any controversial issues which all tax discussions sooner or later arouse. But there is one item of controversy already making the front pages of the daily press on which we wish to express our opinion. This is the claim raised by the opponents to the expansion of the tax program of the Government that to tap seriously the top layer of wealth would prevent recovery. The argument is that heavy taxation on large wealth discourages savings and hence investments. We shall not here raise the historical question why these past 5 years, during which wealth pretty well remained unhampered by heavy taxation, recovery failed to come about. We wish only to call attention to the fact that already for some years past, and these during the very period of post-war prosperity

that culminated in the disastrous 1930's, much of the savings of the country failed to show up as investments in legitimate business enterprise. On the contrary, according to the studies of the Brookings Institution already referred to, only portions, in 1928 and 1929 only 44 and 35 percent, respectively, of the total new financing found their traditional place in the formation of capital. The larger portions went, instead, into stock-market speculation, into the organization of investment trusts, into the pyramiding of holdings through the creation of parasitic holding companies. The following figures taken from its book, *The Formation of Capital*, are illuminating.

TABLE 6.—*Major types of American financing, 1924-30*

Year	Net new financing ¹	Net productive financing ¹	Net productive as percent of net new financing	Securities floated by ²	
				Investment trusts	Public utility holding companies
1924.....	4.5	3.5	76.2	44.7	246.3
1925.....	5.1	3.3	64.5	208.5	401.9
1926.....	5.2	3.2	60.8	96.6	532.9
1927.....	6.2	3.3	53.0	418.7	883.5
1928.....	6.7	2.9	44.1	1,026.0	1,104.9
1929.....	9.2	3.2	34.7	2,951.0	1,039.0
1930.....	6.1	3.4	57.2	401.7	647.6

¹ Billion dollars.

² Million dollars.

The comments of the author of the book on these figures need no elaboration from us. This is what he says:

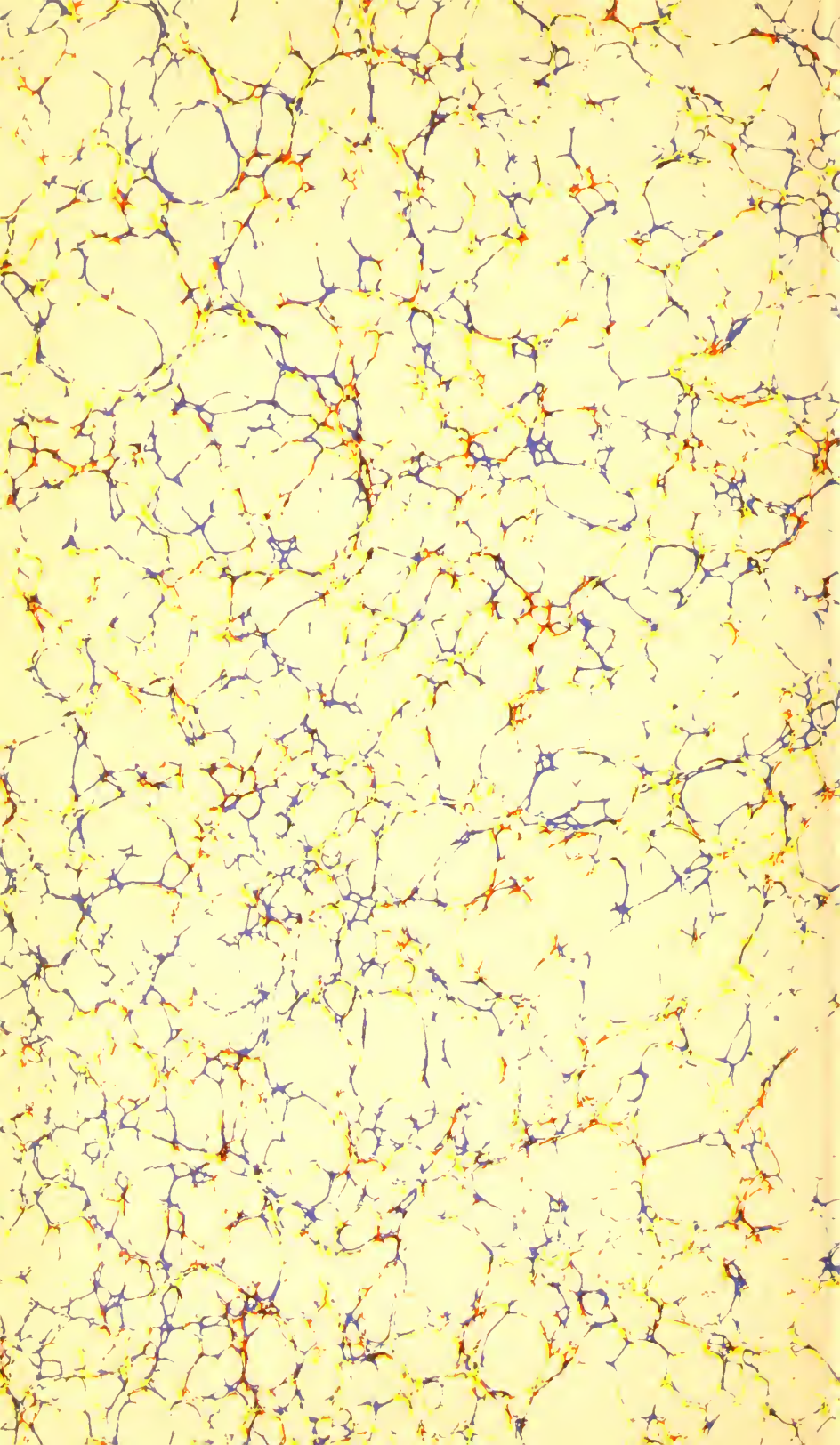
"Such issues served to confuse the true economic picture. They added to the volume of security offerings; but the funds procured were employed almost entirely in the purchase of corporate securities already outstanding. Instead of adding to productive capital, these financial operations merely served to multiply the number of pieces of paper (shares of stock) * * * [and] to boost their prices."

And he summarizes his findings as follows:

"* * * If, in consequence of wide variations in the distribution of income, the proportion of the national income that is saved expands rapidly, there results a maladjustment which retards rather than promotes expansion of capital."

This is what happened during the decade of the twenties. It is now proposed to lop off most of these excess savings through the imposition of a high progressive income tax—a high tax on large individual incomes, and a still higher tax on unearned individual incomes—incomes from estates, inheritance and gifts; a high tax on corporation income from its business operations and a still higher tax on excessive profits and on its non-operating income, etc.

"At this stage in our economic history", the author of the Brookings Institution study concludes, "the primary need * * * is a larger flow of funds through consumptive channels rather than more abundant savings". The tax program envisaged in the suggestions herewith presented would help realize, in part, this much needed redistribution of this "flow of funds". The funds exist, much of them in excess savings and in spurious investments, which the National Government must have to meet the crying needs of millions of Americans.



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